

F L A G S T A F F , A R I Z O N A

2006



## Investing in the Quality of Flagstaff's Future

**City of Flagstaff  
Comprehensive Annual  
Financial Report**

**Fiscal Year Ended  
June 30, 2006**



# *Comprehensive Annual Financial Report*

For Fiscal Year Ended  
June 30, 2006

City of Flagstaff, Arizona



**Prepared By:**  
**Management Services Department**  
**Finance and Budget Division**



# City of Flagstaff

## Comprehensive Annual Financial Report

### For the Fiscal Year Ended June 30, 2006

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# City of Flagstaff

December 22, 2006

The Honorable Mayor, City Council and Citizens of the City of Flagstaff, Arizona

I am pleased to submit the Comprehensive Annual Financial Report (CAFR) for the City of Flagstaff, Arizona (City) for the fiscal year ended June 30, 2006, as required by Article VI, Section 5 of the City Charter. The report was prepared by the City's Finance Division in accordance with U.S. generally accepted accounting principles (GAAP) and audited in accordance with U.S. generally accepted auditing standards by a firm of licensed certified public accountants.

This report consists of management's representations concerning the finances of the City of Flagstaff. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Flagstaff has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City of Flagstaff's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Flagstaff's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Nordstrom & Associates, PC, a firm of licensed certified public accountants have audited the City of Flagstaff's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Flagstaff for the fiscal year ended June 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Flagstaff's financial statements for the fiscal year ended June 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Flagstaff was part of a broader, federally mandated “Single Audit” designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Flagstaff's separately issued Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Flagstaff's MD&A can be found immediately following the report of the independent auditors.

## **CITY OF FLAGSTAFF PROFILE**

Flagstaff is located in Coconino County, Arizona at the intersection of Interstate 17 and Interstate 40. Flagstaff is the largest city in Northern Arizona and is the regional center and county seat for Coconino County, the second largest county in the 48 contiguous states. The current population as of the 2003 census is approximately 61,030. The City of Flagstaff became a town in 1894, incorporated as a city in 1928 and its boundaries currently encompass an area of just over 64 square miles. Flagstaff is nestled at the base of the San Francisco Peaks and is surrounded by one of the largest ponderosa pine forests on earth. Flagstaff drew its name from a very tall pine tree made into a flagpole in 1876 to celebrate our nation's centennial. At nearly 7,000 feet, Flagstaff is one of the highest elevation cities in the United States.

Flagstaff operates under a council-manager form of government as provided by its Charter. The Mayor is elected at large on a non-partisan ballot for a two-year term and six City Council members are elected at large on a non-partisan ballot for a four-year term. The City Council appoints the City Manager, who has full responsibility for carrying out Council policies and administering City operations. The City manager, in turn, appoints City employees and department heads under service procedures specified by Charter. City service departments provide a full range of services including General Government, police and fire protection, Environmental Services, Transportation, Library, Parks and Recreation, Airport, Water and Sewer, and Stormwater Services.

The annual budget serves as the foundation for Flagstaff's financial planning and control. The City Council formally adopts the budget and legally allocates, or appropriates, available monies for all funds and entities related to the City. All of these funds and entities are included in the basic financial statements. The City Manager submits to the Council each spring a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. Two public hearings are held prior to the budget's final adoption in order to obtain taxpayer comments. The budget is legally enacted through the passage of an ordinance. The ordinance sets the limit for expenditures during the fiscal year. The legal level of control for the budget is the department level. Additional expenditures may be authorized for unanticipated and/or inadequately budgeted events threatening the public health or safety as prescribed in the State Constitution, Article 9, Section 20.

## **FACTORS AFFECTING THE CITY'S FINANCIAL CONDITIONS**

### **Local economy**

The City's employment base continues to be heavily government based. Although this provides stability to the economy during declines, it is subject to other factors. This year the Arizona state retirement system again increased employee mandated contributions which effectively reduced local disposable incomes for individuals working for the City, County, Community College, Flagstaff Unified School District and to some extent Northern Arizona University. The City continues to see further development as a second home market to the residents of Phoenix and its surrounding areas. The City anticipates land development to slow as there are less residential lots available for construction and commercial land is at premium. However, despite these factors, we have seen 6.2 % growth in our retail sales, excluding BBB. BBB maintained its rebound which represents approximately, 17% of receipts. Receipts grew by 7% as a result of strong tourism in the region due growth in population in Phoenix. Auto sales had a slight increase of 1.4% and commercial rentals increased 4.1%.

The Council goals have also provided for the expansion of the local Mall, which is a regional shopping center. The Mall expansion includes the construction of an Auto mall. Construction has started with completion anticipated in 2007. This project is a real boon to the local economy. It is a known fact that there is a significant loss of sales tax revenues to the Phoenix area for many retail items. This is exemplified when a new retailer such as Home Depot opened its first store in town and we experienced real retail growth of 35% in the building materials category. The mall will be adding approximately 485,000 square feet of additional retail space and several new auto dealers with additional manufacturers to the market. Sales tax receipts will be benefited both in the of construction dollars spent at the mall and in additional retail sales.

## **LONG-TERM FINANCIAL PLANNING**

The City's responsiveness to emerging economic challenges and its careful long-range planning have been key factors in Flagstaff's fiscal health.

### **STRATEGIC FINANCIAL PLAN**

Flagstaff's financial plan requires many elements working in concert with one another. Some of these financial plan elements are financial resource planning, multi-year budget planning, strategic capital improvement project planning and debt management, all of which are further identified below. Currently, due to the tenuous economic recovery, Flagstaff's financial forecast includes very modest revenue growth, potential for State reductions of revenue sharing, and continued increases in demand for city services such as police, fire, transportation and social services. Financial Services management role will be to maintain and enhance the continued financial stability for the City of Flagstaff.

**Financial Resource Planning** – Strategic financial planning begins with determining the City's fiscal capacity based upon long-term financial forecasts of recurring available revenues. Financial forecasts coupled with financial trend analysis help preserve the fiscal well being of Flagstaff. Strategic financial capacity planning is a critical element to reach long-term financial stability goals and to determine special financial needs for critical objectives of the City Council.

**Multi-Year Budget Planning** – Multi-year budget planning encompasses long-range operating expenditure plans (including the operating impacts of capital projects), which are linked to the community expectations

and broad goals of the City Council. The multi-year approach provides a better opportunity for staff to change its financial paradigm from what do we need this year to how do we accomplish our service objectives over-time, given our financial capacity. While the City is required to adopt an annual budget to meet State statutory requirements, Flagstaff builds a financial plan for the next five years to help anticipate future impacts and ensure achievement of City objectives.

**Strategic Capital Improvement Project Planning** – Flagstaff Capital Improvement Projects are planned for five or more years and analyzed using City specific prioritization criteria. The operating cost impacts of projects are also planned and considered in developing future operating budget plans. Projects with significant operating impacts are carefully timed to avoid contingent liabilities, which future operating resources cannot meet. Pay-as-you-go funding sources are also conservatively estimated to avoid over-committing to capital construction using revenues that are not certain. To the extent debt financing is used and/or required capital project plans are sized to conform to existing debt management policies.

## **CASH MANAGEMENT POLICIES AND PRACTICES**

The City's investment policy is to invest all temporarily idle cash in investments authorized by City resolution or State statute at the highest available interest rate while emphasizing safety of principal and liquidity. Excess funds are invested in the State Treasurer's Local Government Investment Pool (LGIP) and in obligations of the U.S. Treasury and its agencies, demand deposits and repurchase agreements. The maturities of the investments range from one day to 6 years. The average yield on investments was 3.8%.

## **RISK MANAGEMENT**

The City maintains a self-insurance program for liability claims, unemployment compensation, health and workers' compensation. In addition, the City's Risk Management Division employs various risk control techniques, such as employee accident prevention training and inspection of City property and facilities, to minimize accident-related losses. Additional information on the City of Flagstaff risk management activity can be found in Notes.V.A in the notes to the financial statements.

## **PENSION AND OTHER POST-EMPLOYMENT BENEFITS**

All full-time employees of the City are covered by one of three pension plans. The State Retirement System is for the benefit of the employees of the state and certain other governmental jurisdictions. All full-time City employees, except fire and police personnel, are included in the plan that is a multiple-employer, cost-sharing defined benefit pension plan. All police and fire personnel participate in the Public Safety Retirement System that is an agent multiple-employer plan. In addition, the Mayor and Council members contribute to the State's Elected Officials plan that is also a multiple-employer cost-sharing pension plan.

Additional information on the City of Flagstaff pension arrangements can be found in Note V.C. in the notes to the financial statements.

## **MAJOR INITIATIVES AND SERVICE EFFORTS AND ACCOMPLISHMENTS**

During FY 2005–2006, Flagstaff continued work to maintain basic services while also fulfilling the City Council goals. These goals provide for strategies that move the community closer to economic viability and sustainable community objectives. The outcomes of these strategies have been many and in certain cases require sustained efforts over a period of time.

The following are the some of the goals of the Council and the City's' accomplishments in FY2005–2006.

### **Economic Development/Redevelopment**

The City continues to coordinate closely on economic development activities with the Greater Flagstaff Economic Council (GFEC). An additional 41–fulltime jobs at or above the county median wages were created; 61,160 square feet of commercial space was added to existing industry with a capital investment value of \$430,000. In addition, 335 existing jobs in our community will receive Arizona Department of Commerce job training grant funding, totaling over \$470,000.

The City, with Northern Arizona Council of Governments (NACOG) as partner, undertook a large federal Economic Development Agency (EDA) grant agreement process at NAU's request. This grant (\$3.2 million), along with City funding, will build a 10,000 square foot business incubator building on the McMillan Mesa and operate a business start-up program. The incubator facility will focus on technology and science start-up companies, and a program operator has been selected through an RFP process – The Northern Arizona Technology and Business Incubator (NATBI). The building will be located between the U.S. Geological Survey campus and the planned Science and Technology Park. Through an RFP process, The Plaza Companies was selected as developer for the Science and Technology Park.

Tourism continues as a mainstay industry in the community. Efforts included a publicity campaign to better inform tourist of conditions during fire and snow seasons and correct winter driving conditions through the "Clear the Road to Flagstaff" campaign. The industry saw a 5.2% increase in revenues.

On the redevelopment front, many projects are in progress. The Flagstaff Mall expansion and Auto Mall construction are under way with completion of the first phase in Fall 2007. The Sawmill development will begin construction in early 2007 including a new flagship store for New Frontiers grocer. The Southside 2005 Master Plan's first project, traffic calming along Beaver and San Francisco Streets, is under way. Implementation of this master-plan is a multi-year project involving many community members. Downtown is in the middle of developing a comprehensive parking plan and the 44 acre in-fill project, Sawmill, is in final design phase.

### **Fiscal Health**

The City was successful in adopting and publishing their five-year capital improvement plan. The City presented to the voters over \$155.1 million in new capital projects to be bond funded in 2004 and received overwhelming approval. The projects include the relocation for four fire stations, construction of a new fire training center and fire tower, a new aquatic facility, land for new parks, a renovated or new multi generational recreation facility, water rights acquisition, additional water wells, renovation of the City wildcat wastewater treatment plant, and expansion of the USGS campus.

### **Public Safety**

The City Council recognizes that the role of public safety encompasses a broad array of interrelated activities. Public order and quality of life issues must be addressed on a broad front through a partnership of shared responsibility and trust between Police, Fire, other city departments, civic organizations and the community. Community safety and well-being must be built from within each neighborhood and cannot be imposed from the outside. The City and the Police department conducted numerous community activities that strengthen neighborhoods. These included 120 block watch meetings, youth celebrations and formal gang and drug education in the schools, and two citizen police academies.. Activities also include our community partners. The City funds an after school program activities at various school district sites and works with United Way, whom supports numerous agencies in the community to promote the basic skills children need and other services.

### **Affordable Housing**

The goals are manifold to address affordable housing in a community with such a severe deficiency. The Council's two workforce housing task forces presented the results of their studies of regulatory and a house trust. Staff has been examining each recommendation for both work program implementation and legality. Success of the studies encompasses a comprehensive approach over many years. Affordable housing includes the needs of the community from rentals, to first time home buyers, homeless and general affordability issues across all entire workforce. There is no one tool that will solve this issue but must be dealt with for the entire city.

### **Capital Improvements**

Programmed capital infrastructure expenditures facilitate planned growth, economic development and protects existing community investments. Allocating resources through a coordinated planning and engineering process, with high levels of public involvement, assures our community is shaped in alliance with citizen support. The Capital Division worked on numerous projects through the year and continues to refine the process. Elements that were implemented included a schedule based work program, comprehensive 5-year CIP program, team chartering, project review process, and monthly financial reporting.

### **Customer Service**

A positive customer service culture will enhance the delivery of service both externally and internally. Training was provided on customer service to all employees. Job description and employee evaluations were changed to incorporate customer service as a key element of job duties.

### **Planning for Growth**

With a finite supply of land, we have to provide for the region's growth in a manner that balances growth and conservation. A major amendment to the City's general plan was forthcoming in December after much discussion about the planned development, Villagio Montano. The community struggles with the goals higher density and more compact development, that simulates traditional neighborhood designs, as described by the voter authorized GMG, with the impacts this type of development will bring to the City. Traffic impacts, schools, parks and other infrastructure requirements are far reaching as are the realities that this form of dense development will change the community character.

## **Collaboration**

Strengthens the community by strengthening partnerships with sovereign nations, public, non-profit and private agencies and developing collaborative goals at all levels. The City continues its role with the alliance group that is comprised of Coconino County, Northern Arizona University, Coconino Community College, and the Flagstaff Unified School District. The alliance group continued its support of education with a unified statement to the state legislature supporting the funding of education as a primary goal to the success of the state, community and the vitality of economic development.

## **Quality of Life**

Consideration is given to quality of life preservation and enhancement in all City actions and appropriations. This is a diverse objective with many outcomes. This year brought about a year of implementation for the many projects that will add value and character to our community. With the passage of the a successful bond program, staff has engaged the public for input and started design for new fire stations, open space, and new and improved parks and recreation facilities. With escalating construction costs in both material and labor, projects have been reevaluated and provided supplemental funding to ensure the projects can be delivered as promised. The City was successful in purchasing a ranch in the vicinity of Flagstaff that will supply a water source for future citizens in Flagstaff. The Ranch has several active wells however the City will need to develop the infrastructure to transmit the water to the Community.

Succession Planning – Similar to other organizations, the City anticipates losing 25% of their senior staff in the next ten years. In anticipation of this loss the City as started and training program to provide employees with the skills needed to promote and lead the organization into the next decade. The first group in the City has completed the Long term development program, a training program that provides classes in the competencies needed to promote within the organization. Several key positions where vacated in the City by retirement, Police Chief, Public Works Director and Assistant Fire Chief. Although a national search was conducted for all of these positions, only the Assistant Fire Chief was filled externally, internal staff were selected over the outside candidates for the Police Chief and Public Works Director.

## **Forest Health**

Flagstaff resides in the middle of the largest stand of Ponderosa pine in the world. This provides a key element to the City situated at the base of the San Francisco Peaks at 7,000 elevation a cool mountain environment. Unfortunately with this amenity comes the risk of catastrophic wildfire. The City continues to be proactive in the implementation of a major forest health initiative. In fact, the City is recognized nationally for its successful program. The program includes active thinning on City property within the City, community outreach to educate and assist the private sector in good health management, assistance with other governmental agencies in forest management and collaboration with the Forest Service and environmental groups in a forest management plan for the areas in and around City property.

The outcome of the program has been an aggressive thinning of the forest and excellent public education resulting in private sector management of their trees. The Greater Flagstaff Forest Partnership, with collaboration of public, private and environmental groups, has successfully initiate major thinning projects in the Federal land that meets all parties' objectives.

## **AWARDS AND ACKNOWLEDGEMENTS**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Flagstaff for its comprehensive annual financial report for the fiscal year ended June 30, 2005. This was the 12<sup>th</sup> consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility.

The City also received the GFOA's award for Distinguished Budget Presentation for our 2006–2007 annual budget. In order to qualify for the Distinguished Budget Presentation award, the City's budget document was judged to be proficient in all categories, a Policy Document, a Financial Plan, an Operation Guide, and as a Communication Device.

A special word of appreciation is due to Barbara Goodrich, Finance Budget Manager and to the entire finance staff who prepared this CAFR. As an organization we would be remiss to not also personally recognize Maryellen Pugh, CPA for her tireless efforts in directing the statement drafting and coordination.

Acknowledgment should also be made for the interest and support received from members of the Mayor and Council, the office of the City Manager, and the willing cooperation of the other operating and staff departments of the City. The cooperative assistance of our independent auditor, Nordstrom and Associates, also contributed significantly to this report.

Respectfully Submitted,

Mary Jo Jenkins  
Management Services Director

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Flagstaff,  
Arizona

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



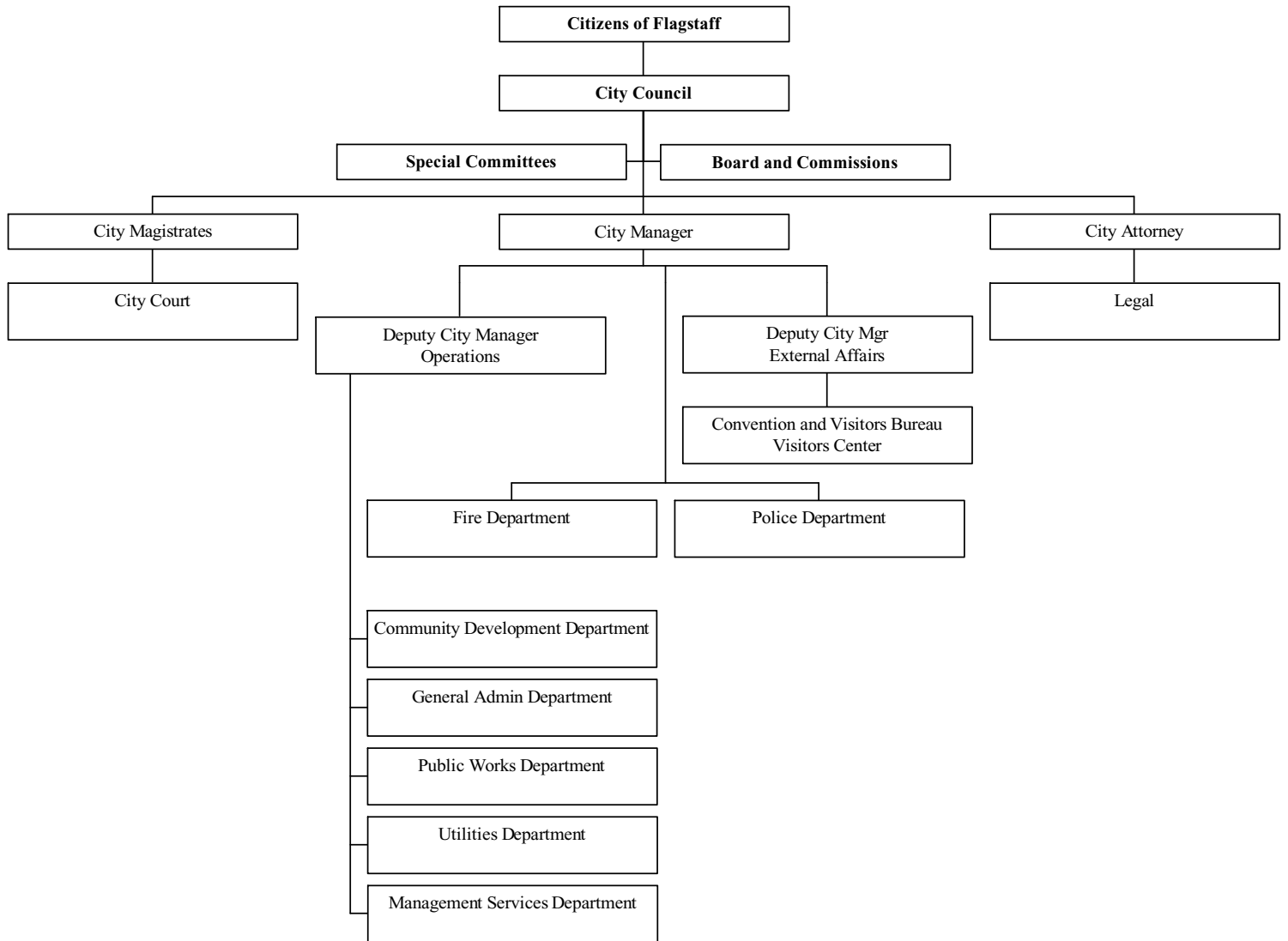
A handwritten signature in black ink, reading "Carla E. Fudge".

President

A handwritten signature in black ink, reading "Jeffrey R. Enen".

Executive Director

# City of Flagstaff



City of Flagstaff, Arizona  
List of Elected and Appointed Officials  
June 30, 2006

Elected Officials

Mayor	Joseph C. Donaldson
Vice Mayor	Scott Overton
Councilmember	Karen K. Cooper
Councilmember	Joseph P. Haughey
Councilmember	Kara M. Kelty
Councilmember	Rick Swanson
Councilmember	Al White

Appointed Officials

City Manager	David W. Wilcox
City Attorney	Patricia Boomsma
City Treasurer	Mary Jo Jenkins
City Clerk	Margie Brown



Bruce J. Nordstrom, CPA  
Godfrey C. Loper, Jr., CPA  
Marjorie T. McClanahan, CPA  
Timothy D. Hansen, CPA



MEMBERS  
American Institute of  
Certified Public Accountants  
Arizona Society of Certified  
Public Accountants

## **INDEPENDENT AUDITOR'S REPORT**

**Honorable Mayor and Members of the City Council  
City of Flagstaff, Arizona**

**We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of City of Flagstaff, Arizona (the City), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.**

**We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.**

**In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of City of Flagstaff, Arizona, as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the general, highway user, transportation and BBB funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.**

The management's discussion and analysis on pages 3 through 15 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. In addition, the introductory section, combining and individual fund statements and schedules, capital assets schedules, and statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and schedules, and capital assets schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2006 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Nordstrom & Associates, P.C.*

Flagstaff, Arizona  
October 26, 2006

## MANAGEMENT DISCUSSION AND ANALYSIS

As management of the City of Flagstaff (the City), we offer readers of the City's financials statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages iii –x of this report.

### FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$402.8 million (net assets). Of this amount \$31.3 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$49.7 million during the fiscal year. This increase is related to capital improvement activity both internally funded and funded through contributions from private development. Private development contributions totaled \$31.5 million in for the year ended June 30, 2006. The majority of projects are related to large residential developments including The Estates at Pine Canyon (\$4.4 million), Mt. Elden Foothills, (\$3.4 million), Pinnacle Pines Unit One (\$2.2 million), and Presidio in the Pines (\$11.8 million). The remaining \$9.6 million are contributions from 27 separate projects.
- As of June 30, 2006, the City's governmental funds reported combined ending fund balances of \$82.4 million, an increase of \$17.8 million in comparison with the prior fiscal year. Approximately 63.1% of this total amount (\$52.1 million) is unreserved fund balance available for spending at the government's discretion.
- As of June 30, 2006, total unreserved fund balance for the general fund was \$29.2 million, or 68.5% of total general fund expenditures (\$42.6 million).
- As of June 30, 2006, the City's proprietary funds reported combined total net assets of \$252.7 million, and total unrestricted net assets of \$20.6 million. \$15.0 million of the unrestricted net assets are in the Water and Wastewater Fund.
- The beginning fund balance for governmental activities in the Statement of Activities and the Statement of Revenue, Expenditure, and Changes in Fund Balance has been restated due to a change in accounting estimate as related to compensated absences. Detail information can be found on page 57 within the footnotes.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: (1) **Government-wide** financial statements, (2) **Fund** financial statements, and (3) **Notes** to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The **statement of net assets** presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The **statement of activities** presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some

items that will only result in cash flows in future fiscal periods such as revenues pertaining to uncollected taxes and earned but unused vacation leave.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include Police, Fire, Community Development, Parks and Recreation, City Council, City Manager, City Attorney, Municipal Courts, Human Resources, Risk Management, Information Services, Financial Services, Library, and Economic Development. The business-type activities of the City include Water and Wastewater, Airport, Environmental Services, and Stormwater operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also for the Municipal Property Corporation (MPC). The MPC, although also legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government as a blended component unit.

The government-wide financial statements can be found on pages 17 – 19 of this report.

### **Fund financial statements**

The fund financial statements are designed to report information about groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: **governmental** funds, **proprietary** funds, and **fiduciary** funds.

**Governmental funds:** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains several individual government funds organized according to their type (special revenue and debt service). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund, Highway User Revenue fund, Transportation fund, and the BBB fund which are all considered to be major funds. Data from the remaining governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General fund, Special Revenue funds, Debt Service funds, and Enterprise funds. A budgetary comparison statement has been provided for the General and other major governmental funds to demonstrate compliance with the respective budgets.

The basic governmental fund financial statements can be found on pages 20 – 30 of this report.

**Proprietary funds:** Proprietary funds are generally used to account for services for which the City charges customers – either outside customers, or departments of the City. Proprietary funds provide the same type of information shown in the government-wide financial statements, only in more detail. The City maintains the following two types of proprietary funds:

- **Enterprise funds** are used to report the same function presented as business-type activities in the government-wide financial statements. The City used enterprise funds to account for Water and Wastewater, the Airport, Environmental Services which includes solid waste collection, and Stormwater. Water and Wastewater, the Airport, and Environmental Services are considered to be major funds of the City.
- **Internal Service funds** are used to report activities that provide supplies and services for certain City programs and activities. The City uses an internal service fund to account for its workers compensation, health insurance, other risk related activity including claims adjustment, and general liability and property insurance. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service fund is combined into a single, aggregated presentation in the proprietary fund statements. Individual fund data for the internal service fund is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 32–39 of this report.

**Fiduciary funds** are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 40–41 of this report.

## **Notes to the Financial Statements**

The notes to the financial statement provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 43–77 of this report.

## **Combining statements**

The combining statements referred to earlier in connection with non-major governmental funds are presented on pages 80–83.

## Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's capital asset activity. Required supplementary information can be found on page 86–88 of this report.

## GOVERNMENT WIDE STATEMENTS FINANCIAL ANALYSIS

### Analysis of Net Assets

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by \$402.8 million as of June 30, 2006.

Of the City's net assets, 80.3% reflects its investment of \$323.6 million in capital assets (e.g. land, buildings, and equipment), less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

**Net Assets**  
**June 30, 2006 and 2005 (in thousands of dollars)**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	2006	2005 (as restated)	2006	2005	2006	2005 (as restated)
Current and other assets	\$ 104,872	\$ 82,721	\$ 37,064	\$ 42,313	\$ 141,936	\$ 125,034
Capital assets	137,246	104,441	257,103	230,766	394,349	335,207
Total assets	<u>242,118</u>	<u>187,162</u>	<u>294,167</u>	<u>273,079</u>	<u>536,285</u>	<u>460,241</u>
Long-term liabilities	74,655	49,064	29,703	33,239	104,358	82,303
Other liabilities	17,360	13,638	11,733	11,140	29,093	24,778
Total liabilities	<u>92,015</u>	<u>62,702</u>	<u>41,436</u>	<u>44,379</u>	<u>133,451</u>	<u>107,081</u>
Invested in capital assets, net of related debt	93,515	46,760	230,035	200,551	323,550	247,311
Restricted	45,561	20,670	2,393	3,201	47,954	23,871
Unrestricted	11,027	57,030	20,303	24,949	31,330	81,979
Total net assets	<u>\$ 150,103</u>	<u>\$ 124,460</u>	<u>\$ 252,731</u>	<u>\$ 228,701</u>	<u>\$ 402,834</u>	<u>\$ 353,161</u>

A portion of the City's net assets, \$47.9 million (11.9%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$31.3 million (7.8%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the government as a whole, as well as for the business-type activities.

Current assets for governmental activities increased by 26.8% (\$22.1 million). This is due to unspent bond proceeds. Bonds totaling \$31.5 million were issued to fund a portion of the May 2004 voter approved capital plan, including fire stations and equipment, Flagstaff Urban Trail System (FUTS) and park acquisitions, and the Aquatic Multigenerational Center. Capital assets of the governmental activities, funded through debt proceeds, grants, and

contributions, increased by 31.4% (\$32.8 million) due to the 4<sup>th</sup> Street project, and infrastructure additions (\$12.1 million and \$14.2 million, respectively).

Long-term liabilities increased by 52.2% (\$25.6 million) due to the additional debt related to capital plan as previously discussed. Other liabilities increased by 27.3% (\$3.7 million) also due to increased debt liability of the City.

Overall business-type net assets increased by 10.5% (\$24.0 million) also due primarily to capital asset additions from private development donations. Private developments donations specific to enterprise funds totaled \$19.4 million. Of the \$19.4 million in private development donations, 96.3% (\$18.7 million) is from residential developments.

### Analysis of Change in Net Assets

The City's overall net assets increased by \$49.6 million during the current fiscal year. These increases are explained in the government and business-type activities discussion to follow.

**Changes in Net Assets**  
**For the Years Ended June 30, 2006 and 2005 (in thousands of dollars)**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	2006	2005 (as restated)	2006	2005	2006	2005 (as restated)
<b>Revenues</b>						
Program Revenues:						
Charges for services	\$ 7,898	\$ 6,327	\$ 28,664	\$ 27,465	\$ 36,562	\$ 33,792
Operating grants and contributions	3,792	4,148	-	575	3,792	4,723
Capital grants and contributions	21,567	15,180	23,450	8,165	45,017	23,345
General Revenues:						
Property taxes	9,051	8,462	-	-	9,051	8,462
Sales taxes	30,015	27,054	-	-	30,015	27,054
State shared taxes	14,384	12,838	-	-	14,384	12,838
Unrestricted investment earnings	2,385	1,704	1,182	936	3,567	2,640
Other	639	678	327	514	966	1,192
Total revenues	<u>89,731</u>	<u>76,391</u>	<u>53,623</u>	<u>37,655</u>	<u>143,354</u>	<u>114,046</u>
<b>Expenses</b>						
General government	7,459	5,335	-	-	7,459	5,335
Public safety	22,525	20,662	-	-	22,525	20,662
Public works	1,455	1,292	-	-	1,455	1,292
Economic and physical development	7,843	6,746	-	-	7,843	6,746
Culture and recreation	8,329	9,378	-	-	8,329	9,378
Highways and streets	12,043	9,975	-	-	12,043	9,975
Interest on long-term debt	2,167	2,043	-	-	2,167	2,043
Water and wastewater	-	-	18,452	17,297	18,452	17,297
Environmental	-	-	9,096	8,549	9,096	8,549
Airport	-	-	3,520	3,750	3,520	3,750
Stormwater	-	-	792	480	792	480
Total expenses	<u>61,821</u>	<u>55,431</u>	<u>31,860</u>	<u>30,076</u>	<u>93,681</u>	<u>85,507</u>
Increase in net assets before transfers	27,910	20,960	21,763	7,579	49,673	28,539
Transfers	(2,267)	(7,005)	2,267	7,005	-	-
Change in net assets	25,643	13,955	24,030	14,584	49,673	28,539
Net assets at beginning of year, as restated	124,460	110,505	228,701	214,117	353,161	324,622
Net assets at end of year	<u>\$ 150,103</u>	<u>\$ 124,460</u>	<u>\$ 252,731</u>	<u>\$ 228,701</u>	<u>\$ 402,834</u>	<u>\$ 353,161</u>

### Governmental activities

Governmental activities increased the City's net assets by \$25.6 million, accounting for 51.6% of the total growth in the net assets of the City. The key factors for this increase are as follows:

- Charges for service have increased primarily due to the building plan review and permitting for several large residential and commercial projects. Increases in building revenues are generally not considered as permanent base revenue increases as construction fluctuates from year to year.
- Capital grants and contributions have increased due to increased expenditures for Homeland Security and private development infrastructure contributions (\$12.0 million).
- Property tax increases are due both to increases in housing inventory on the property tax roles along with community-wide housing price increases.
- Sales tax revenues continued to increase at both local and state levels. State sales tax levels had decreased significantly in the post-9/11 environment and have finally surpassed revenue levels achieved five years ago. Bed, Board, and Booze (BBB) taxes continue to exceed prior levels after two years of declining revenues. Historically, City sales tax has maintained a constant level of growth and this trend continues.
- The City's portion of state shared taxes has grown slightly as the City's proportionate census share has grown relative to the overall state population.
- Unrestricted investment earnings are also normalizing with rates increasing to an average of over 4.0%.
- Expenses have increased due to the capital activity previously discussed.

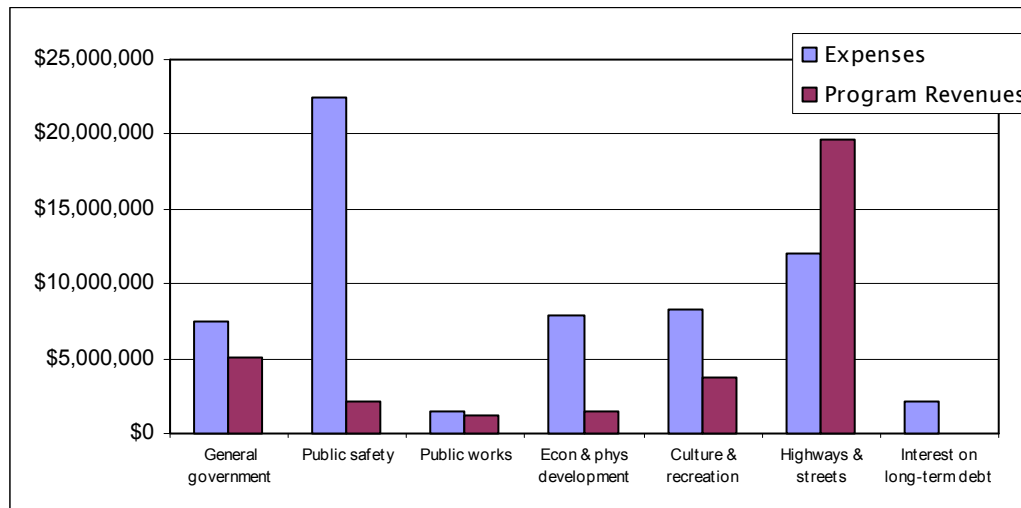
### Business-type activities

Business type activity had net asset growth of \$24.0 million, accounting for 48.4% of the total growth in the net assets to the City. The key factors for this increase include:

- The majority of this growth is related to private development contributions totaling \$19.4 million.

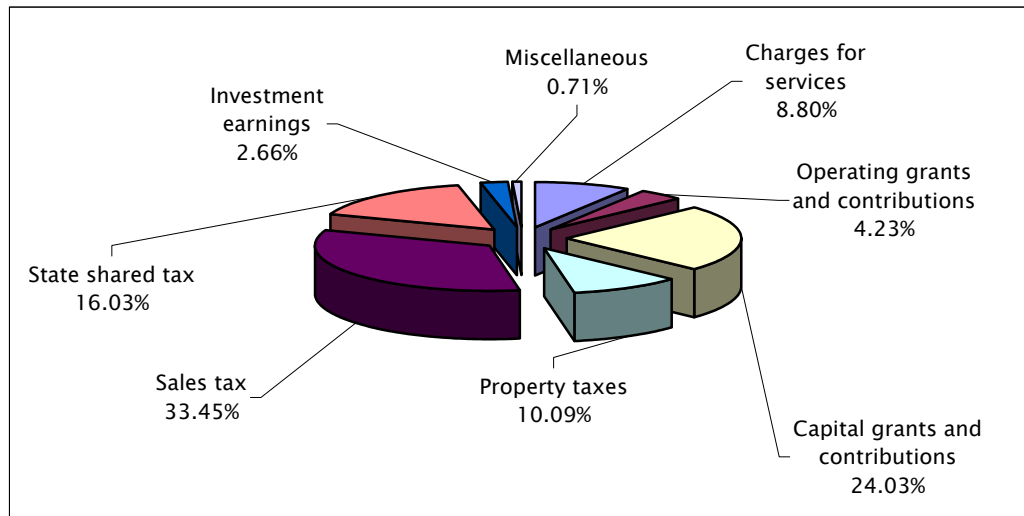
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### Expenses and Program Revenues – Governmental Activities



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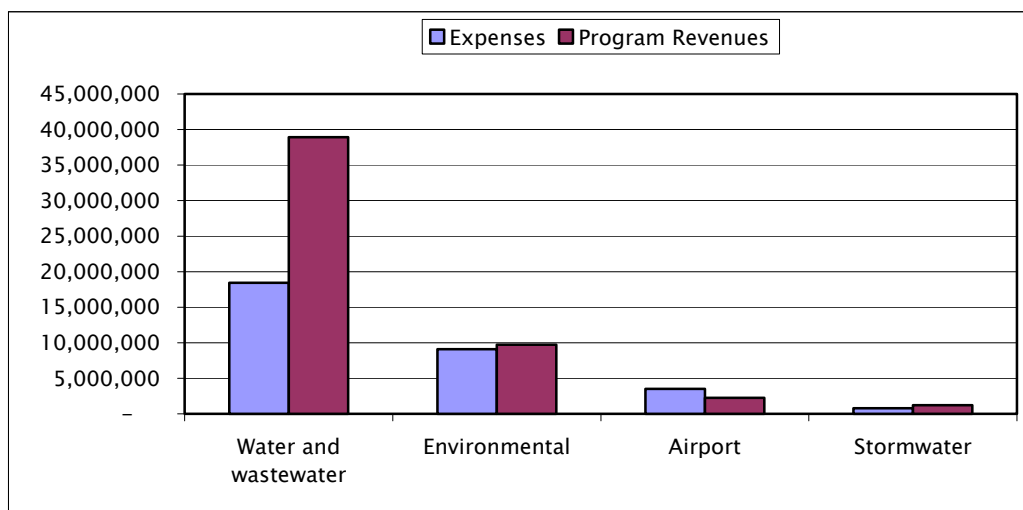
## Revenues by Source – Governmental Activities



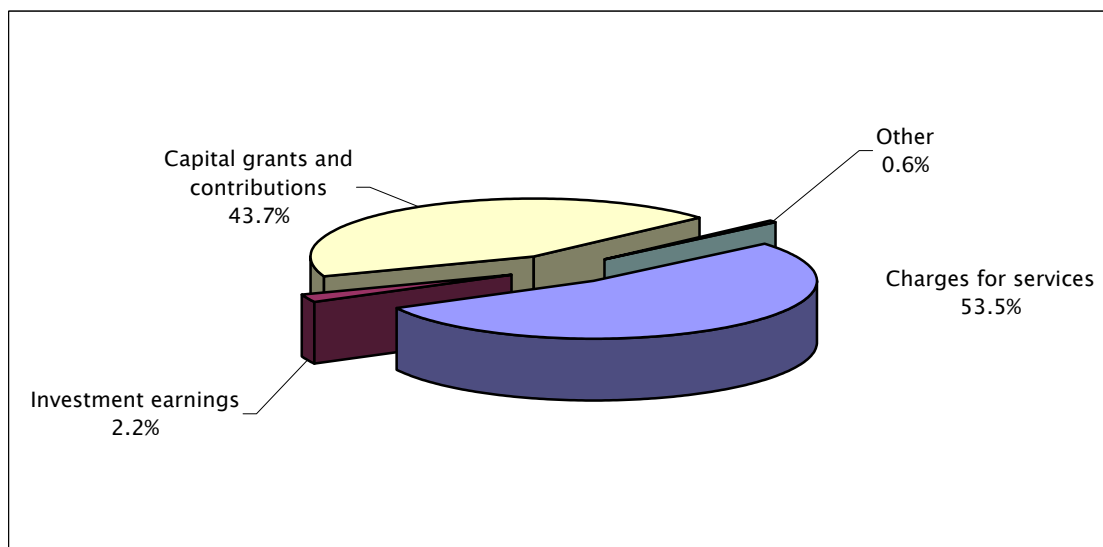
The previous two charts illustrate the City's governmental expenses and revenues by function and its revenues by source. As shown, Public safety is the largest function in expense (36.4%), followed by Highways & streets (19.5%), Culture and recreation (13.5%), and Economic and physical development (12.7%). General revenues such as sales taxes, state shared taxes, and property taxes are not shown by program, but are effectively used to support program activities citywide. For governmental activities overall, without regard to program, sales taxes are the largest single source of funds (33.4%), followed by capital grants and contributions (24.0%), and state shared taxes (16.0%).

For the most part increases in expenses from the previous year compared to the fiscal year ended June 30, 2006 paralleled inflation and growth in the demand for services. However, several areas had higher expense increases than what could be attributed to anticipated inflation and growth; General Government (39.8%), Highways and streets (20.7%), and Economic and physical development (16.3%). General government increases are directly related to the energy improvements completed for various City departments. Highway and street increases are due to the additional work to the 4<sup>th</sup> Street Overpass, and the Economic and physical development increases are related to increased staffing and spending to manage the greater building and capital activity of the City, as well as the management of Community Development Block Grants and the Metropolitan Planning Organization.

## Expenses and Program Revenues – Business Type Activities



## Revenues by Source – Business-type activities



As shown in the previous chart, Water and Wastewater has expenses of \$18.5 million for the fiscal year, followed by Environmental Services with \$9.1 million, the Airport with \$3.5 million and Stormwater with \$0.8 million. For the fiscal year, revenues exceeded expense for Water and wastewater, Environmental Services and Stormwater. Airport expenses exceeded revenues due to planned usage of net assets for the completion of capital projects. Environmental Services, Airport, and Stormwater funds received the majority of their program revenues through charges for services (100.0%, 56.3% and 51.5%, respectively). The Water and Wastewater fund receives 43.8% of support through charges for service and the other 56.2% through grants and contributions. Charges for services provided the largest share of revenues (55.0%) for all of the business-type activities, followed by capital grants and contributions (45.0%). The proportionate share of revenue from charges for service (55.0%) and capital grants and contributions (45.0%) represents a significant shift from the prior year of 75.9 % and 22.6% respectively. This shift is the direct result of the increase in capital grants and contributions from \$8.2 million to \$23.4 million for the fiscal year ended June 30, 2006.

Stormwater expenses increased by 65.1% (\$0.3 million) in comparison with FY 2005. The Stormwater program is still relatively new to the City as it completed its third year. The expense increase is the result of attaining full staffing and the ability to proceed on drainage improvements.

The Water and Wastewater fund realized an 82.8% (\$17.6 million) revenue increase that is directly attributable to capital grants and contributions, which has been previously detailed. Specific only to the Water and Wastewater fund, the City received donated capital for several large residential projects including Presidio in the Pines (\$7.0 million), the Estates at Pine Canyon Phase I and II (\$3.2 million) Pinnacle Pines Unit One (\$1.9 million), and Mt. Elden Foothills (\$1.6 million).

## **Financial Analysis of the City's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### **Governmental Funds**

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of Governmental funds reported by the City include the General fund, Special Revenue funds, and Debt Service funds.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$82.4 million, an increase of \$17.8 million in comparison with the prior year, as restated. Approximately \$52.1 million of the total ending fund balance constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to pay debt service (\$1.9 million), (2) for capital projects (\$28.1 million), (3) for inventory reserve (\$232,190), and perpetual care (\$69,502).

Revenues for governmental functions overall totaled \$77.4 million in the fiscal year ended June 30, 2006 which represents an increase of 8.8% or \$6.3 million from the fiscal year ended June 30, 2005. Tax revenues which include the general sales tax, the transportation tax, BBB tax, general property tax, secondary property tax and franchise taxes increased by 10.1% (\$3.6 million). Sales tax growth was due to the continued economic rebound at both the state and city levels coupled with all-time high tourist levels. Intergovernmental revenues decreased by 2.1% (\$372,270). While there were increased state receipts for the local share of state sales tax, state income tax, and Highway User Revenue (HURF), the City also experienced a funding decrease as the City had received one time funding (\$2.0 million) in FY2005 from the Arizona Department of Transportation for street turnbacks. Grant and entitlement revenues increased 13.8% (\$1.3 million) primarily due to increased homeland security funding for public safety vehicles.

Expenditures for governmental functions, totaling \$89.0 million, increased by 21.2% (\$15.6 million) from the fiscal year ended June 30, 2005, as restated. The expenditure increase was driven by a \$2.0 million increase in debt service related to the \$31.5 million dollar bond issuance for the voter-approved projects including new fire stations and the Aquatic/Multi-generational center. Capital projects costs increased by \$8.0 million to a total of \$25.1 million and which include expenditures for energy saving improvements throughout all City facilities (\$2.9 million), street improvement projects (\$4.0 million), the 4<sup>th</sup> Street Overpass (\$10.3 million), recreation improvements including Thorpe Park and the BMX park (\$3.2 million) and bond projects (\$2.4 million).

In the fiscal year ended June 30, 2006 expenditures for governmental functions exceeded revenues by approximately \$11.7 million. As previously noted, the higher level of expenditures is due to planned increases in both the debt service payments and the capital project expenditures of the city.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$29.2 million. As a measure of liquidity, it may be useful to compare both total unreserved, undesignated fund balance and total fund balance to total fund expenditures. The unreserved, undesignated fund balance and total fund balance represent 68.5% and 69.0%, respectively, of General Fund expenditures.

The fund balance in the City's General Fund decreased by \$510,835 during the fiscal year mainly due to planned expenditures for capital projects that have been accumulating in the General Fund balance. Overall, the General Fund's performance resulted in revenues in excess of expenditures in the fiscal year ended June 30, 2006 of \$2.9 million. This is a decrease of approximately \$1.2 million over the comparable figure from the prior year of \$4.1 million.

The Highway User Revenue Fund increased by \$773,771 million during the fiscal year due to increased state funding receipts and uncompleted capital projects. The Transportation Fund and the BBB Fund decreased by \$10.2 million and \$0.9 million, respectively, which represents a planned usage of fund balance for capital projects.

### **Proprietary funds**

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the fiscal year, the unrestricted net assets had positive balances for Water and Wastewater, Environmental Services, and Stormwater. The internal service fund, which is used to account for risk management and health insurance activities, had unrestricted net assets of \$4.8 million.

The total growth in net assets for the proprietary funds was \$24.0 million. Factors concerning the finances of these funds have been addressed previously in the discussion of the City's business-type activities.

### **Fiduciary funds**

The City maintains fiduciary funds for the assets of the Firemen's Pension Trust Fund. As of June 30, 2006, the net assets had decreased by \$369.

### **Budget Highlights**

The City's final budget differs from the original budget for certain divisions within the General fund even though the overall original budget remained the same. Council approved transfers from the contingency funds for the following divisions:

General fund contingency transfer:

\$ 35,000	Community Improvements – labor reallocation
<u>60,000</u>	Public Works Administration – retirement payout
<u>\$ 95,000</u>	

## Capital Assets and Debt Administration

### Capital Assets

The City's capital assets (net of accumulated depreciation) for its governmental and business-type activities as of June 30, 2006 amount to \$394.3 million. Capital assets include land, buildings, infrastructure, improvements, machinery and equipment, and construction in progress. The total increase in the City's capital assets for the current year was 17.6% (\$59.1 million). The following table reflects the capital assets at the end of the fiscal year:

**Capital Assets, Net of Depreciation**  
June 30, 2006 and 2005 (in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 9,171	\$ 9,037	\$ 10,301	\$ 2,357	\$ 19,472	\$ 11,394
Buildings	25,413	25,801	50,930	46,448	76,343	72,249
Improvements	9,690	6,721	173,221	158,361	182,911	165,082
Machinery and equipment	8,779	8,219	9,498	8,563	18,277	16,782
Infrastructure	37,477	23,243	-	-	37,477	23,243
Construction in progress	46,716	31,420	13,153	15,037	59,869	46,457
Total	<u>\$ 137,246</u>	<u>\$ 104,441</u>	<u>\$ 257,103</u>	<u>\$ 230,766</u>	<u>\$ 394,349</u>	<u>\$ 335,207</u>

Major capital asset events during the current fiscal year included a 70.9% (\$8.1 million) increase in land which is primarily the Red Gap Ranch purchase (water rights development). Improvements increased by 10.8% (\$17.8 million) which include the Sunnyside area, Wildcat Hill Wastewater Treatment Plant, and the Butler waterline project. Infrastructure increased by 61.2% (\$14.2 million) due to the donated assets contributed throughout the year. Construction in progress increased by 28.9% (\$13.4 million) primary due to the 4<sup>th</sup> Street Overpass.

For government-wide financial statement presentation, all depreciable capital assets are depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures. Please refer to Note IV C on pages 62-64 of the Notes to the Financial Statements for further information regarding capital assets.

### Long Term Debt

At the end of the current fiscal year, the City had total long-term debt outstanding of \$99.3 million. Of this amount, \$49.2 million is general obligation bonds backed by the full faith and credit of the City, \$15.4 million is revenue bonds, \$0.3 million is improvement district bonds, \$25.6 million is for the Municipal Facility Corporation, and \$8.8 million are outstanding leases or loans for the airport, water/wastewater, and city-wide energy conservation improvements.

**Outstanding Debt**  
**June 30, 2006 and 2005 (in thousands of dollars)**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
General obligation bonds	\$ 32,875	\$ 4,285	\$ 16,294	\$ 18,880	\$ 49,169	\$ 23,165
Special assessment bonds	340	415	–	–	340	415
Revenue bonds	9,665	11,555	5,770	6,035	15,435	17,590
Other debt	25,610	26,895	–	–	25,610	26,895
Lease/Loans	3,455	3,800	5,323	5,763	8,778	9,563
Total debt payable	<u>\$ 71,945</u>	<u>\$ 46,950</u>	<u>\$ 27,387</u>	<u>\$ 30,678</u>	<u>\$ 99,332</u>	<u>\$ 77,628</u>

During fiscal year 2006, the City's total bonded debt increased by approximately \$21.7 million. The City issued \$31.5 million in new general obligation debt to fund specific voter authorized projects including some of the fire stations and related equipment, and FUTS and park acquisitions. The debt retirement exceeded the debt obligation in all other bond categories.

The State constitution imposes certain debt limitations on the City of six percent (6%) and twenty percent (20%) of the outstanding assessed valuation of the City. The City's available debt margin at June 30, 2006 is \$23.3 million in the 6% category and \$89.6 million in the 20% capacity. Additional information on the debt limitations and capacities may be found in Schedule 15 in the statistical section of this report.

During the year, the City maintained the following bond ratings:

**City of Flagstaff Bonded Debt Ratings**  
**As of June 30, 2006**

	<b>Moody's Investors Service</b>	<b>Standard &amp; Poor's</b>
General Obligation	AAa3	A+
Water and Sewer Revenue	A-1	A
Street and Highway Revenue	A-1	A+

Additional information on the City's long-term debt can be found in Section IV F of the Notes to the Financial Statements.

**Economic Factors and Next Year's Budget and Rates**

The Fiscal Year 2006/2007 budget preparation was influenced by the following factors:

- Legislative changes reduced the ceiling for property tax assessment, decreasing the City's capacity for future assessments by approximately \$5 million dollars.
- The Arizona legislature enacted a 10% income tax reduction. The impact of this change will be to the City FY 2009 budget.
- Commercial development including enhancements to the Flagstaff Mall, the inception of an automall, the development of the conference center at Northern Arizona University, and the addition of a Super Walmart will permanently increase sales tax revenues.
- Other revenue resources are anticipated to exhibit limited growth
- Creation of a Housing Land trust and permitting several large housing developments are anticipated to be completed over the next 10 years creating a positive economic impact by reducing overall housing costs.

- The City pay structure had fallen behind the state average by approximately 6%. The entire pay plan was shifted by 9% to keep Flagstaff competitive in the employment market
- The cost of providing retirement and health benefits continue to escalate beyond available budgeted resources. The City continues to look for ways to manage the entire employee compensation package.
- This goal is balanced with the need to minimize take home impacts to the employee who also experiences increased deductions due to benefit changes.
- The addition of positions that meet the current and future needs as defined by Council
- The City responded to the economic downturn during the first half of this decade by reducing and/or eliminating amounts spent on facility maintenance. The City is restoring those funds and working toward long term plans to assure long facility life
- Maintenance of level expenditures while minimizing the impact to health and/or safety services
- Assessment and funding of long range capital needs and their associated operational impacts

### **Requests for Information**

The financial report is designed to provide a general overview of the City's finances for all of those with an interest in the government's finances. If you have questions about this report or need additional financial information, contact:

City of Flagstaff  
 Management Services Department  
 Finance and Budget Division  
 211 W. Aspen  
 Flagstaff, AZ 86001

Main and TDD (928) 774-5281  
 Arizona Relay 7-1-1



**CITY OF FLAGSTAFF, ARIZONA**  
**Statement of Net Assets**  
**June 30, 2006**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 50,641,332	\$ 20,768,242	\$ 71,409,574
Cash with fiscal agents	7,385,221	3,372,920	10,758,141
Investments	31,110,440	50,000	31,160,440
Accounts receivables, net	9,590,048	2,954,343	12,544,391
Interest receivable	585,986	236,998	822,984
Intergovernmental receivable	2,415,818	819,331	3,235,149
Bond proceeds receivable	99,569	-	99,569
Special assessments receivable	3,934	-	3,934
Internal balance	418,913	(418,913)	-
Inventory	253,461	198,085	451,546
Deferred bond issuance costs, net	668,561	434,933	1,103,494
Restricted assets:			
Temporarily restricted:			
Cash and cash equivalents	1,698,025	8,647,990	10,346,015
Capital assets:			
Non-depreciable	55,887,646	23,454,143	79,341,789
Depreciable, net	81,358,785	233,649,104	315,007,889
<b>Total assets</b>	<b>242,117,739</b>	<b>294,167,176</b>	<b>536,284,915</b>
<b>LIABILITIES</b>			
Accounts payable	4,007,451	585,088	4,592,539
Accrued payroll	1,253,247	241,923	1,495,170
Interest payable	1,301,682	525,744	1,827,426
Unearned revenue	645,727	285,462	931,189
Deposits payable	1,452,154	490,937	1,943,091
Matured bonds and lease payable	6,085,000	3,090,788	9,175,788
Unamortized bond premium	1,182,895	115,775	1,298,670
Liabilities payable from restricted assets	1,432,120	6,397,099	7,829,219
Noncurrent liabilities:			
Due within one year:			
Compensated absences	1,192,746	203,188	1,395,934
Special assessment bonds	76,000	-	76,000
Bonds, notes and leases payable	5,237,221	3,717,272	8,954,493
Due in more than one year:			
Compensated absences	1,517,427	248,590	1,766,017
Landfill closure and postclosure care costs	-	1,863,856	1,863,856
Special assessment bonds	264,000	-	264,000
Bonds, notes and leases payable	66,367,330	23,670,003	90,037,333
<b>Total liabilities</b>	<b>92,015,000</b>	<b>41,435,725</b>	<b>133,450,725</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	93,515,204	230,035,130	323,550,334
Restricted for:			
Capital projects	43,398,843	2,392,858	45,791,701
Debt service	1,977,225	-	1,977,225
Grant purposes	111,549	-	111,549
Perpetual care:			
Expendable	3,271	-	3,271
Nonexpendable	69,502	-	69,502
Unrestricted	11,027,145	20,303,463	31,330,608
<b>Total net assets</b>	<b>\$ 150,102,739</b>	<b>\$ 252,731,451</b>	<b>\$ 402,834,190</b>

The notes to the financial statements are an integral part of this statement

**CITY OF FLAGSTAFF, ARIZONA**  
**Statement of Activities**  
**Year Ended June 30, 2006**

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government</b>				
Governmental activities:				
General government	\$ 7,458,583	\$ 4,886,354	\$ 102,517	\$ 41,805
Public safety	22,525,292	815,167	405,363	882,489
Public Works	1,454,731	1,180,097	-	-
Economic and physical development	7,842,985	332,356	1,103,826	-
Culture and recreation	8,328,945	683,906	2,141,577	978,971
Highways and streets	12,043,242	-	38,243	19,663,284
Interest on long-term debt	2,167,626	-	-	-
Total governmental activities	<u>61,821,404</u>	<u>7,897,880</u>	<u>3,791,526</u>	<u>21,566,549</u>
Business-type activities:				
Water and wastewater	18,452,368	17,047,831	369	21,875,480
Environmental	9,096,420	9,723,652	-	-
Airport	3,519,749	1,261,594	-	979,611
Stormwater	791,791	630,962	-	594,878
Total business-type activities	<u>31,860,328</u>	<u>28,664,039</u>	<u>369</u>	<u>23,449,969</u>
<b>Total primary government</b>	<u>\$ 93,681,732</u>	<u>\$ 36,561,919</u>	<u>\$ 3,791,895</u>	<u>\$ 45,016,518</u>

General revenues:

- Property taxes, levied for general purposes
- Property tax, levied for debt service
- Sales taxes
- State shared sales taxes – unrestricted
- Grants and contributions not restricted to specific programs
- Investment earnings
- Miscellaneous
- Gain on sale of capital assets
- Contributions to permanent fund
- Transfers in (out)
- Total general revenues, contributions and transfers
- Change in net assets
- Net assets – beginning, as restated
- Net assets – ending

The notes to the financial statements are an integral part of this statement

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (2,427,907)	\$ -	\$ (2,427,907)
(20,422,273)	-	(20,422,273)
(274,634)	-	(274,634)
(6,406,803)	-	(6,406,803)
(4,524,491)	-	(4,524,491)
7,658,285	-	7,658,285
(2,167,626)	-	(2,167,626)
(28,565,449)	-	(28,565,449)
-	20,471,312	20,471,312
-	627,232	627,232
-	(1,278,544)	(1,278,544)
-	434,049	434,049
-	20,254,049	20,254,049
(28,565,449)	20,254,049	(8,311,400)
4,196,021	-	4,196,021
4,855,137	-	4,855,137
30,014,975	-	30,014,975
14,384,055	-	14,384,055
377,502	889	378,391
2,385,099	1,181,836	3,566,935
204,678	-	204,678
33,417	326,540	359,957
24,630	-	24,630
(2,267,551)	2,267,551	-
54,207,963	3,776,816	57,984,779
25,642,514	24,030,865	49,673,379
124,460,225	228,700,586	353,160,811
\$ 150,102,739	\$ 252,731,451	\$ 402,834,190

**CITY OF FLAGSTAFF, ARIZONA**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2006**

	<u>General Fund</u>	<u>Highway User Revenue Fund</u>	<u>Transportation Fund</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 19,591,855	\$ 6,231,826	\$ 5,329,801
Cash with fiscal agents	383,918	2,153,143	1,493,590
Investments	-	-	-
Accounts receivable, net	4,188,319	3,491,270	891,092
Interest receivable	184,181	70,103	41,567
Intergovernmental receivables	1,585,799	203,447	174,738
Interfund receivable	7,265,000	-	-
Bond proceeds receivable	99,569	-	-
Special assessments receivable	-	-	-
Inventory	232,189	-	-
Restricted cash and cash equivalents	1,623,886	-	3,726
Total assets	<u>\$ 35,154,716</u>	<u>\$ 12,149,789</u>	<u>\$ 7,934,514</u>
<b>LIABILITIES AND FUND BALANCE</b>			
Liabilities:			
Accounts payable	\$ 1,901,976	\$ 156,355	\$ 323,498
Accrued payroll and compensated absences	1,221,990	51,384	-
Interest payable	87,799	263,143	493,550
Current bonds payable	285,000	1,890,000	1,000,000
Interfund payable	-	-	4,000,000
Deferred revenue	122,687	-	-
Unearned revenue	633,218	8,575	-
Guaranty and other deposits	1,452,154	-	-
Liabilities payable from restricted assets	63,852	-	-
Total liabilities	<u>5,768,676</u>	<u>2,369,457</u>	<u>5,817,048</u>
Fund balances:			
Reserved for:			
Debt service	-	-	-
Capital projects	-	-	-
Inventory	232,190	-	-
Perpetual care	-	-	-
Unreserved, undesignated, reported in:			
General fund	29,153,850	-	-
Special revenue funds	-	9,780,332	2,117,466
Permanent fund	-	-	-
Total fund balances	<u>29,386,040</u>	<u>9,780,332</u>	<u>2,117,466</u>
Total liabilities and fund balances	<u>\$ 35,154,716</u>	<u>\$ 12,149,789</u>	<u>\$ 7,934,514</u>

The notes to the financial statements are an integral part of this statement

BBB Fund	Capital Projects Bond Construction	General Obligation Bond Fund	Other Governmental Funds	Total Governmental Funds
\$ 5,582,304	\$ 2,238	\$ 360,364	\$ 8,431,848	\$ 45,530,236
-	-	3,347,465	7,105	7,385,221
-	31,110,440	-	-	31,110,440
554,767	-	-	69,798	9,195,246
40,593	149,774	-	65,997	552,215
-	-	-	451,834	2,415,818
-	-	-	-	7,265,000
-	-	-	-	99,569
-	-	-	3,934	3,934
21,272	-	-	-	253,461
-	-	911	69,502	1,698,025
<u>\$ 6,198,936</u>	<u>\$ 31,262,452</u>	<u>\$ 3,708,740</u>	<u>\$ 9,100,018</u>	<u>\$ 105,509,165</u>
\$ 606,854	\$ 271,301	\$ -	\$ 192,178	\$ 3,452,162
22,347	-	-	66,083	1,361,804
-	-	448,585	-	1,293,077
-	-	2,910,000	8,605	6,093,605
-	2,930,000	-	335,000	7,265,000
-	-	-	-	122,687
-	-	-	3,934	645,727
-	-	-	-	1,452,154
-	-	-	1,368,268	1,432,120
<u>629,201</u>	<u>3,201,301</u>	<u>3,358,585</u>	<u>1,974,068</u>	<u>23,118,336</u>
-	-	350,155	1,627,070	1,977,225
-	28,061,151	-	-	28,061,151
-	-	-	-	232,190
-	-	-	69,502	69,502
-	-	-	-	29,153,850
5,569,735	-	-	5,426,107	22,893,640
-	-	-	3,271	3,271
<u>5,569,735</u>	<u>28,061,151</u>	<u>350,155</u>	<u>7,125,950</u>	<u>82,390,829</u>
<u>\$ 6,198,936</u>	<u>\$ 31,262,452</u>	<u>\$ 3,708,740</u>	<u>\$ 9,100,018</u>	<u>\$ 105,509,165</u>

CITY OF FLAGSTAFF  
RECONCILIATION OF THE BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
GOVERNMENTAL ACTIVITIES  
JUNE 30, 2006

Fund balances – total governmental funds balance sheet		\$ 82,390,829
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Amounts reported for governmental activities in the statements of net assets are different because (also see note 2):

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

Governmental capital assets	173,499,594		
Less: accumulated depreciation	<u>(36,253,163)</u>		137,246,431

Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

Deferred bond issue costs	668,561		
Fines and forfeitures	<u>321,692</u>		990,253

Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the governmental funds.

Governmental bonds payable	71,944,551		
Bond premium	1,182,895		
Compensated absences	<u>2,601,616</u>		(75,729,062)

Certain revenues are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.

Special assessments	3,934		
Property tax	<u>118,753</u>		122,687

The internal service fund is used by management to charge the cost of self insurance programs to individual funds.

The assets and liabilities of the internal service funds that are reported with governmental activities.			<u>5,081,601</u>
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Net assets of governmental activities – statement of net assets		<u><u>\$ 150,102,739</u></u>
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**CITY OF FLAGSTAFF, ARIZONA**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended June 30, 2006**

	General Fund	Highway User Revenue Fund	Transportation Fund
<b>REVENUES:</b>			
Taxes	\$ 20,998,113	\$ -	\$ 8,602,159
Intergovernmental	14,384,055	-	-
Grants and entitlements	1,882,928	8,285,355	55,665
Charges for services	1,882,830	-	-
Special assessments	-	-	-
Licenses and permits	2,834,506	-	-
Fines and forfeitures	1,394,174	-	-
Rents	1,180,097	-	-
Investment earnings	860,144	273,406	376,074
Contributions	7,200	-	-
Miscellaneous	48,506	78,687	-
Total revenues	<u>45,472,553</u>	<u>8,637,448</u>	<u>9,033,898</u>
<b>EXPENDITURES:</b>			
Current:			
General governmental	6,621,976	-	-
Public safety	21,626,547	-	-
Public works	1,168,424	-	-
Economic and physical development	4,030,152	-	-
Culture and recreation	3,303,764	-	-
Highways and streets	-	7,409,273	3,290,923
Debt service:			
Principal retirement	630,448	1,890,000	1,000,000
Interest and other charges	304,449	526,933	989,600
Capital outlay	4,893,543	3,987,636	10,265,886
Total expenditures	<u>42,579,303</u>	<u>13,813,842</u>	<u>15,546,409</u>
Excess (deficiency) of revenues over expenditures	<u>2,893,250</u>	<u>(5,176,394)</u>	<u>(6,512,511)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Capital-related debt issued	-	-	-
Premium on capital-related debt	-	-	-
Sale of capital assets	31,893	5,916	-
Transfers in	3,967,748	7,079,650	-
Transfers out	(7,403,726)	(1,135,401)	(3,732,717)
Total other financing sources (uses)	<u>(3,404,085)</u>	<u>5,950,165</u>	<u>(3,732,717)</u>
Net change in fund balances	<u>(510,835)</u>	<u>773,771</u>	<u>(10,245,228)</u>
Fund balances, beginning of year, as restated	<u>29,896,875</u>	<u>9,006,561</u>	<u>12,362,694</u>
Fund balances, end of year	<u>\$ 29,386,040</u>	<u>\$ 9,780,332</u>	<u>\$ 2,117,466</u>

The notes to the financial statements are an integral part of this statement

BBB Fund	Capital Projects Bond Construction	General Obligation Bond Fund	Other Governmental Funds	Total Governmental Funds
\$ 4,623,308	\$ -	\$ -	\$ 4,881,323	\$ 39,104,903
-	-	-	2,789,361	17,173,416
272,647	-	-	384,197	10,880,792
55,945	-	-	261,044	2,199,819
-	-	-	30,016	30,016
-	-	-	-	2,834,506
-	-	-	-	1,394,174
15,367	-	-	-	1,195,464
184,270	244,824	-	299,567	2,238,285
13,100	-	-	109,630	129,930
43,859	-	-	33,626	204,678
<u>5,208,496</u>	<u>244,824</u>	<u>-</u>	<u>8,788,764</u>	<u>77,385,983</u>
-	-	-	-	6,621,976
-	-	-	-	21,626,547
-	-	-	-	1,168,424
1,875,558	11,073	-	1,723,530	7,640,313
443,469	-	-	3,430,796	7,178,029
-	-	-	-	10,700,196
-	220,086	2,689,914	75,001	6,505,449
-	264,892	446,997	19,145	2,552,016
3,329,597	2,437,703	-	139,808	25,054,173
<u>5,648,624</u>	<u>2,933,754</u>	<u>3,136,911</u>	<u>5,388,280</u>	<u>89,047,123</u>
<u>(440,128)</u>	<u>(2,688,930)</u>	<u>(3,136,911)</u>	<u>3,400,484</u>	<u>(11,661,140)</u>
-	31,500,000	-	-	31,500,000
-	220,086	-	-	220,086
62	-	-	21	37,892
1,063,650	-	3,451,375	1,754,710	17,317,133
(1,498,933)	-	-	(5,813,907)	(19,584,684)
<u>(435,221)</u>	<u>31,720,086</u>	<u>3,451,375</u>	<u>(4,059,176)</u>	<u>29,490,427</u>
<u>(875,349)</u>	<u>29,031,156</u>	<u>314,464</u>	<u>(658,692)</u>	<u>17,829,287</u>
<u>6,445,084</u>	<u>(970,005)</u>	<u>35,691</u>	<u>7,784,642</u>	<u>64,561,542</u>
<u>\$ 5,569,735</u>	<u>\$ 28,061,151</u>	<u>\$ 350,155</u>	<u>\$ 7,125,950</u>	<u>\$ 82,390,829</u>

CITY OF FLAGSTAFF  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006

Net change in fund balances – total governmental funds \$ 17,829,287

Amounts reported for governmental activities in the statements of  
activities are different because:

Government funds report capital outlays as expenditures. However, in the  
statement of activities, the cost of those assets is allocated over their  
estimated useful lives as depreciation expense.

Expenditures for capital assets	25,054,173	
Less current year depreciation	<u>(4,204,458)</u>	20,849,715

Some items reported in the governmental funds are sources and uses of  
current financial resources and therefore are not reported as revenues or  
expenses in the statement of activities. These items include:

Capital-related debt issued	(31,500,000)	
Premium on debt issued	(220,086)	
Donated capital	11,960,124	
Compensated absences	(489,482)	
Principal payments on debt	6,505,449	
Bond premium	<u>119,724</u>	(13,624,271)

Bond issuance costs are recognized as debt service expenditures in the  
governmental funds, however these costs are capitalized on the statement  
and activities and amortized in the statement of activities.

Issuance costs on debt issued	264,666	
Issuance costs	<u>(69,277)</u>	195,389

The sale of capital assets in the governmental funds reflect proceeds.  
However, in the statement of activities the sale of capital assets reflect the  
net gain (loss). (4,475)

Certain revenues in the governmental funds that provide current financial  
resources are not included in the statement of activities because they were  
recognized in a prior period. However, other revenues that are deferred in  
the governmental funds because they do not provide current financial  
resources due to unavailability are recognized in the statement of activities.

Special assessments	(30,016)	
Property tax	(38,770)	
Fines and forfeitures	<u>273,917</u>	205,131

Internal service funds are used by management to charge the costs of  
certain activities, such as the City's self-insurance program to individual  
funds. The following activities of the internal service fund is reported with  
governmental activities.

Operating loss	44,924	
Investment income	<u>146,814</u>	191,738

Change in net assets of governmental activities – statement of activities		<u><u>\$ 25,642,514</u></u>
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**CITY OF FLAGSTAFF, ARIZONA**  
**General Fund**

**Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Year Ended June 30, 2006**

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
<b>REVENUES:</b>				
Taxes	\$ 18,991,769	\$ 18,991,769	\$ 20,815,147	\$ 1,823,378
Intergovernmental	13,837,661	13,837,661	14,384,055	546,394
Grants and entitlements	1,571,200	1,571,200	1,882,928	311,728
Charges for services	1,518,942	1,518,942	1,882,830	363,888
Licenses and permits	2,135,239	2,135,239	2,834,506	699,267
Fines and forfeitures	1,163,746	1,163,746	1,394,174	230,428
Rents	855,358	855,358	1,180,097	324,739
Investment earnings	500,000	500,000	1,039,207	539,207
Contributions	–	–	7,200	7,200
Miscellaneous	199,999	199,999	48,506	(151,493)
Total revenues	<u>40,773,914</u>	<u>40,773,914</u>	<u>45,468,650</u>	<u>4,694,736</u>
<b>EXPENDITURES:</b>				
General administration	5,200,940	5,200,940	4,927,279	273,661
Management Services	3,503,470	3,503,470	3,346,831	156,639
Community development	4,105,404	4,140,404	3,741,647	398,757
Fire	8,655,551	8,655,551	9,554,999	(899,448)
Police	14,297,667	14,297,667	13,802,613	495,054
Public works	6,775,498	6,835,498	6,265,653	569,845
Utilities	28,757	28,757	28,757	–
Non-departmental	1,935,270	1,935,270	858,198	1,077,072
Contingency	530,000	435,000	53,326	381,674
Total expenditures	<u>45,032,557</u>	<u>45,032,557</u>	<u>42,579,303</u>	<u>2,453,254</u>
Excess (deficiency) of revenues over expenditures	<u>(4,258,643)</u>	<u>(4,258,643)</u>	<u>2,889,347</u>	<u>7,147,990</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of capital assets	5,521	5,521	31,893	26,372
Transfers in	4,234,955	4,234,955	3,967,748	(267,207)
Transfers out	(14,272,963)	(14,272,963)	(7,403,726)	6,869,237
Total other financing sources (uses)	<u>(10,032,487)</u>	<u>(10,032,487)</u>	<u>(3,404,085)</u>	<u>6,628,402</u>
Net change in fund balances	<u>(14,291,130)</u>	<u>(14,291,130)</u>	<u>(514,738)</u>	<u>13,776,392</u>
Budgetary fund balances, beginning of year	<u>22,526,372</u>	<u>22,526,372</u>	<u>22,526,372</u>	<u>–</u>
Budgetary fund balances, end of year	<u>\$ 8,235,242</u>	<u>\$ 8,235,242</u>	<u>\$ 22,011,634</u>	<u>\$ 13,776,392</u>
Adjustment from budetary basis to GAAP basis net change in fund balances			\$ (514,738)	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			3,903	
Adjusted net change in fund balance – GAAP basis			<u>\$ (510,835)</u>	

The notes to the financial statements are an integral part of this statement

**CITY OF FLAGSTAFF, ARIZONA**  
**Highway User Revenue Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Year Ended June 30, 2006**

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
<b>REVENUES:</b>				
Grants and entitlements	\$ 9,072,486	\$ 9,072,486	\$ 8,285,355	\$ (787,131)
Investment earnings	41,000	41,000	273,406	232,406
Miscellaneous	3,451,347	3,451,347	78,687	(3,372,660)
Total revenues	<u>12,564,833</u>	<u>12,564,833</u>	<u>8,637,448</u>	<u>(3,927,385)</u>
<b>EXPENDITURES:</b>				
Current:				
General administration	247,091	247,091	247,091	–
Management Services	246,583	246,583	246,583	–
Community development	890,966	890,966	890,966	–
Public works	24,134,851	24,134,851	12,197,021	11,937,830
Utilities	3,289	3,289	3,289	–
Non-departmental	228,892	228,892	228,892	–
Contingency	100,000	40,000	–	40,000
Total expenditures	<u>25,851,672</u>	<u>25,791,672</u>	<u>13,813,842</u>	<u>11,977,830</u>
Excess (deficiency) of revenues over expenditures	<u>(13,286,839)</u>	<u>(13,226,839)</u>	<u>(5,176,394)</u>	<u>8,050,445</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of capital assets	–	–	5,916	5,916
Transfers in	10,097,836	10,097,836	7,079,650	(3,018,186)
Transfers out	(1,135,401)	(1,135,401)	(1,135,401)	–
Total other financing sources (uses)	<u>8,962,435</u>	<u>8,962,435</u>	<u>5,950,165</u>	<u>(3,012,270)</u>
Net change in fund balances	<u>(4,324,404)</u>	<u>(4,264,404)</u>	<u>773,771</u>	<u>5,038,175</u>
Budgetary fund balances, beginning of year	<u>7,431,091</u>	<u>7,431,091</u>	<u>7,431,091</u>	<u>–</u>
Budgetary fund balances, end of year	<u>\$ 3,106,687</u>	<u>\$ 3,166,687</u>	<u>\$ 8,204,862</u>	<u>\$ 5,038,175</u>

The notes to the financial statements are an integral part of this statement

**CITY OF FLAGSTAFF, ARIZONA**  
**Transportation Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Year Ended June 30, 2006**

	Budget			
	Original	Final	Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
<b>REVENUES:</b>				
Taxes	\$ 8,123,048	\$ 8,123,048	\$ 8,545,062	\$ 422,014
Grants and entitlements	–	–	55,665	55,665
Investment earnings	231,000	231,000	376,074	145,074
Total revenues	<u>8,354,048</u>	<u>8,354,048</u>	<u>8,976,801</u>	<u>622,753</u>
<b>EXPENDITURES:</b>				
Current:				
Non-department	2,630,156	2,690,156	3,290,923	(600,767)
Community development	12,113,285	12,113,285	12,255,486	(142,201)
Total expenditures	<u>14,743,441</u>	<u>14,803,441</u>	<u>15,546,409</u>	<u>(742,968)</u>
Excess (deficiency) of revenues over expenditures	<u>(6,389,393)</u>	<u>(6,449,393)</u>	<u>(6,569,608)</u>	<u>(120,215)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of capital assets	6,000,000	6,000,000	–	(6,000,000)
Transfers out	<u>(6,500,051)</u>	<u>(6,500,051)</u>	<u>(3,732,717)</u>	<u>2,767,334</u>
Total other financing sources (uses)	<u>(500,051)</u>	<u>(500,051)</u>	<u>(3,732,717)</u>	<u>(3,232,666)</u>
Net change in fund balances	<u>(6,889,444)</u>	<u>(6,949,444)</u>	<u>(10,302,325)</u>	<u>(3,352,881)</u>
Budgetary fund balances, beginning of year	<u>9,276,586</u>	<u>9,276,586</u>	<u>9,276,586</u>	<u>–</u>
Budgetary fund balances, end of year	<u>\$ 2,387,142</u>	<u>\$ 2,327,142</u>	<u>\$ (1,025,739)</u>	<u>\$ (3,352,881)</u>
Adjustment from budetary basis to GAAP basis net change in fund balances			\$ (10,302,325)	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			57,097	
Adjusted net change in fund balance – GAAP basis			<u>\$ (10,245,228)</u>	

The notes to the financial statements are an integral part of this statement

**CITY OF FLAGSTAFF, ARIZONA**  
**BBB Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Year Ended June 30, 2006**

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
<b>REVENUES:</b>				
Taxes	\$ 4,316,892	\$ 4,316,892	\$ 4,605,274	\$ 288,382
Grants and entitlements	2,973,512	2,973,512	272,647	(2,700,865)
Charges for services	40,000	40,000	55,945	15,945
Rents	–	–	15,367	15,367
Investment earnings	140,360	140,360	158,782	18,422
Contributions	13,100	13,100	13,100	–
Miscellaneous	40,895	40,895	43,859	2,964
Total revenues	<u>7,524,759</u>	<u>7,524,759</u>	<u>5,164,974</u>	<u>(2,359,785)</u>
<b>EXPENDITURES:</b>				
Current:				
General administration	2,091,013	2,091,013	1,851,536	239,477
Community development	5,544,432	5,544,432	1,314,702	4,229,730
Public works	3,415,552	3,415,552	2,076,722	1,338,830
Non-departmental	474,400	474,400	405,664	68,736
Contingency	95,000	95,000	–	95,000
Total expenditures	<u>11,620,397</u>	<u>11,620,397</u>	<u>5,648,624</u>	<u>5,971,773</u>
Excess (deficiency) of revenues over expenditures	<u>(4,095,638)</u>	<u>(4,095,638)</u>	<u>(483,650)</u>	<u>3,611,988</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of capital assets	–	–	62	62
Transfers in	1,134,461	1,134,461	1,063,650	(70,811)
Transfers out	(2,351,603)	(2,351,603)	(1,498,933)	852,670
Total other financing sources (uses)	<u>(1,217,142)</u>	<u>(1,217,142)</u>	<u>(435,221)</u>	<u>781,921</u>
Net change in fund balances	<u>(5,312,780)</u>	<u>(5,312,780)</u>	<u>(918,871)</u>	<u>4,393,909</u>
Budgetary fund balances, beginning of year	<u>6,488,780</u>	<u>6,488,780</u>	<u>6,488,780</u>	<u>–</u>
Budgetary fund balances, end of year	<u>\$ 1,176,000</u>	<u>\$ 1,176,000</u>	<u>\$ 5,569,909</u>	<u>\$ 4,393,909</u>
Adjustment from budetary basis to GAAP basis net change in fund balances			\$ (918,871)	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			43,522	
Adjusted net change in fund balance – GAAP basis			<u>\$ (875,349)</u>	

The notes to the financial statements are an integral part of this statement



**CITY OF FLAGSTAFF, ARIZONA**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2006**

	Business-type Activities – Enterprise Funds	
	Water and Wastewater Fund	Environmental Services Fund
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 13,508,176	\$ 5,832,472
Cash with fiscal agents	3,035,151	–
Restricted cash and cash equivalents	1,593,915	6,261,063
Investments	50,000	–
Accounts receivable, net	2,016,332	817,117
Interest receivable	141,063	39,546
Restricted Interest receivable	–	45,744
Interfund receivables	502,000	–
Intergovernmental receivables	23,720	–
Inventory	198,085	–
Deferred bond issuance costs, net	434,933	–
Total current assets	<u>21,503,375</u>	<u>12,995,942</u>
Noncurrent assets:		
Capital assets, non-depreciable	13,602,432	1,913,455
Capital assets, depreciable, net	195,028,603	6,205,191
Total non-current assets	<u>208,631,035</u>	<u>8,118,646</u>
Total assets	<u>230,134,410</u>	<u>21,114,588</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	172,598	52,471
Accrued payroll and compensated absences	261,620	139,519
Unearned revenue	121,675	–
Unamortized bond premium	108,489	–
Interfund payable	–	–
Lease and notes payable	–	–
Liabilities payable from restricted assets	3,278,763	6,306,807
Deposits payable	438,382	17,340
Total current liabilities	<u>4,381,527</u>	<u>6,516,137</u>
Noncurrent liabilities:		
Compensated absences	173,408	60,988
Landfill closure and postclosure care costs	–	1,863,856
Bonds and notes payable	23,464,923	–
Total noncurrent liabilities	<u>23,638,331</u>	<u>1,924,844</u>
Total liabilities	<u>28,019,858</u>	<u>8,440,981</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	185,481,556	8,118,646
Restricted:		
Capital projects	1,593,915	–
Unrestricted	15,039,081	4,554,961
Total net assets	<u>\$ 202,114,552</u>	<u>\$ 12,673,607</u>

Some amounts reported for *business-type activities* in the statement of net assets are different because certain internal service fund assets and liabilities are included with business-type activities.

The notes to the financial statements are an integral part of this statement

Business-type Activities – Enterprise Funds			Governmental Activities
Airport Fund	Stormwater Fund	Total	Internal Service Fund
\$ 11,359	\$ 1,416,235	\$ 20,768,242	\$ 5,111,096
337,769	-	3,372,920	-
793,012	-	8,647,990	-
-	-	50,000	-
67,863	53,031	2,954,343	73,110
6,841	3,804	191,254	33,771
-	-	45,744	-
-	-	502,000	94,897
795,611	-	819,331	-
-	-	198,085	-
-	-	434,933	-
<u>2,012,455</u>	<u>1,473,070</u>	<u>37,984,842</u>	<u>5,312,874</u>
823,932	7,114,324	23,454,143	-
30,982,158	1,433,152	233,649,104	-
31,806,090	8,547,476	257,103,247	-
<u>33,818,545</u>	<u>10,020,546</u>	<u>295,088,089</u>	<u>5,312,874</u>
325,601	34,418	585,088	555,289
27,609	16,363	445,111	-
163,787	-	285,462	-
7,286	-	115,775	-
596,897	-	596,897	-
116,104	-	116,104	-
337,769	-	9,923,339	-
35,215	-	490,937	-
<u>1,610,268</u>	<u>50,781</u>	<u>12,558,713</u>	<u>555,289</u>
9,207	4,987	248,590	-
-	-	1,863,856	-
3,896,540	-	27,361,463	-
<u>3,905,747</u>	<u>4,987</u>	<u>29,473,909</u>	<u>-</u>
<u>5,516,015</u>	<u>55,768</u>	<u>42,032,622</u>	<u>555,289</u>
27,913,264	8,547,476	230,060,942	-
798,943	-	2,392,858	-
(409,677)	1,417,302	20,601,667	4,757,585
<u>\$ 28,302,530</u>	<u>\$ 9,964,778</u>	<u>\$ 253,055,467</u>	<u>\$ 4,757,585</u>
		(324,016)	
Net assets of business-type activities		<u>\$ 252,731,451</u>	

**CITY OF FLAGSTAFF, ARIZONA**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**Year Ended June 30, 2006**

	Business-type Activities – Enterprise Funds	
	Water and Wastewater Fund	Environmental Services Fund
<b>OPERATING REVENUES:</b>		
Charges for services	\$ 17,043,207	\$ 9,675,382
Miscellaneous	4,624	48,270
Total operating revenues	<u>17,047,831</u>	<u>9,723,652</u>
<b>OPERATING EXPENSES:</b>		
Personal services	4,525,175	3,123,480
Contractual services, materials and supplies	7,266,720	5,264,466
Insurance claims and expenses	-	-
Depreciation and amortization	5,628,635	714,893
Total operating expenses	<u>17,420,530</u>	<u>9,102,839</u>
Operating income (loss)	<u>(372,699)</u>	<u>620,813</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
Interest and investment income	707,207	424,439
Grants and entitlements	10,801	426
Gain on sale of capital asset	24,313	300,200
Interest expense	(1,043,944)	-
Total non-operating revenues (expenses)	<u>(301,623)</u>	<u>725,065</u>
Income (loss) before capital contributions and transfers	<u>(674,322)</u>	<u>1,345,878</u>
Capital contributions	21,865,511	-
Transfers in	2,416,933	-
Transfers out	(2,574,727)	(19,488)
Change in net assets	<u>21,033,395</u>	<u>1,326,390</u>
Total net assets, beginning of year	<u>181,081,157</u>	<u>11,347,217</u>
Total net assets, end of year	<u>\$ 202,114,552</u>	<u>\$ 12,673,607</u>

The notes to the financial statements are an integral part of this statement

Business-type Activities – Enterprise Funds			Governmental Activities
Airport Fund	Stormwater Fund	Total	Internal Service Fund
\$ 1,197,506	\$ 630,962	\$ 28,547,057	\$ 6,370,318
64,088	–	116,982	203,239
<u>1,261,594</u>	<u>630,962</u>	<u>28,664,039</u>	<u>6,573,557</u>
564,481	433,523	8,646,659	–
898,659	346,188	13,776,033	–
–	–	–	6,507,042
<u>1,827,546</u>	<u>12,439</u>	<u>8,183,513</u>	<u>–</u>
<u>3,290,686</u>	<u>792,150</u>	<u>30,606,205</u>	<u>6,507,042</u>
<u>(2,029,092)</u>	<u>(161,188)</u>	<u>(1,942,166)</u>	<u>66,515</u>
35,212	14,978	1,181,836	146,814
979,611	1,393	992,231	–
2,027	–	326,540	–
(231,770)	–	(1,275,714)	–
<u>785,080</u>	<u>16,371</u>	<u>1,224,893</u>	<u>146,814</u>
<u>(1,244,012)</u>	<u>(144,817)</u>	<u>(717,273)</u>	<u>213,329</u>
–	593,485	22,458,996	–
430,863	2,276,204	5,124,000	–
(127,234)	(135,000)	(2,856,449)	–
<u>(940,383)</u>	<u>2,589,872</u>	<u>24,009,274</u>	<u>213,329</u>
<u>29,242,913</u>	<u>7,374,906</u>		<u>4,544,256</u>
<u>\$ 28,302,530</u>	<u>\$ 9,964,778</u>		<u>\$ 4,757,585</u>

Some amounts reported for *business-type activities* on the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities.

Change in net assets of business-type activities

	21,591
\$	<u>24,030,865</u>

**City of Flagstaff, Arizona**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2006**

	Business-type Activities – Enterprise Funds	
	Water and Wastewater Fund	Environmental Services Fund
<b>Cash flows from operating activities:</b>		
Receipts from customers	\$ 16,727,395	\$ 9,537,120
Interfund services provided	280,355	109,322
Other receipts	4,624	48,270
Payments to suppliers	(7,582,233)	(4,770,725)
Interfund services used	(21,040)	–
Payments to employees	(4,531,259)	(3,125,845)
Net cash provided (used) by operating activities	<u>4,877,842</u>	<u>1,798,142</u>
<b>Cash flows from noncapital financing activities:</b>		
Transfer from other funds	2,416,933	–
Transfer to other funds	(2,574,727)	(19,488)
Interfund loans paid	(502,000)	–
Interfund loans received	–	–
Net cash provided (used) by noncapital financing activities	<u>(659,794)</u>	<u>(19,488)</u>
<b>Cash flows from capital and related financing activities:</b>		
Receipts from grantors	13,559	–
Capital Contributions	3,058,121	123,765
Acquisition and construction of capital assets	(10,886,311)	(1,534,801)
Reclassification of capital debt	(11,000)	–
Principal payments on capital debt	(2,268,840)	–
Interest paid on capital debt	(1,525,483)	–
Proceeds from sales of capital assets	39,690	7,200
Net cash provided (used) by capital and related financing activities	<u>(11,580,264)</u>	<u>(1,403,836)</u>
<b>Cash flows from investing activities:</b>		
Interest received on investments	701,784	389,938
Net cash provided (used) by investing activities	<u>701,784</u>	<u>389,938</u>
Net increase (decrease) in cash and cash equivalents	<u>(6,660,432)</u>	<u>764,756</u>
Cash and cash equivalents at beginning of year	24,847,674	11,328,779
Cash and cash equivalents at end of year	<u>\$ 18,187,242</u>	<u>\$ 12,093,535</u>
<b>Classified as:</b>		
Cash and cash equivalents	\$ 13,508,176	\$ 5,832,472
Investments	50,000	–
Restricted cash with fiscal agents	3,035,151	–
Restricted cash and cash equivalents	1,593,915	6,261,063
Totals	<u>\$ 18,187,242</u>	<u>\$ 12,093,535</u>

The notes to the financial statements are an integral part of this statement  
(continued)

Business-type Activities – Enterprise Funds			Governmental Activities
Airport Fund	Stormwater Fund	Total	Internal Service Fund
\$ 1,362,044	\$ 611,092	\$ 28,237,651	\$ 6,365,131
-	18,240	407,917	-
64,088	-	116,982	203,239
(787,736)	(372,387)	(13,513,081)	(6,222,390)
(17,692)	-	(38,732)	-
(566,068)	(426,255)	(8,649,427)	-
<u>54,636</u>	<u>(169,310)</u>	<u>6,561,310</u>	<u>345,980</u>
430,863	2,276,204	5,124,000	-
(127,234)	(135,000)	(2,856,449)	-
-	-	(502,000)	-
502,000	-	502,000	-
<u>805,629</u>	<u>2,141,204</u>	<u>2,267,551</u>	<u>-</u>
517,719	1,393	532,671	-
-	8	3,181,894	-
(1,207,226)	(1,214,235)	(14,842,573)	-
11,000	-	-	-
(323,526)	-	(2,592,366)	-
(264,498)	-	(1,789,981)	-
2,027	-	48,917	-
<u>(1,264,504)</u>	<u>(1,212,834)</u>	<u>(15,461,438)</u>	<u>-</u>
34,819	17,034	1,143,575	139,695
<u>34,819</u>	<u>17,034</u>	<u>1,143,575</u>	<u>139,695</u>
(369,420)	776,094	(5,489,002)	485,675
1,511,560	640,141	38,328,154	4,625,421
<u>\$ 1,142,140</u>	<u>\$ 1,416,235</u>	<u>\$ 32,839,152</u>	<u>\$ 5,111,096</u>
\$ 11,359	\$ 1,416,235	\$ 20,768,242	\$ 5,111,096
-	-	50,000	-
337,769	-	3,372,920	-
793,012	-	8,647,990	-
<u>\$ 1,142,140</u>	<u>\$ 1,416,235</u>	<u>\$ 32,839,152</u>	<u>\$ 5,111,096</u>

(continued)

**City of Flagstaff, Arizona**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2006**

	Business-type Activities – Enterprise Funds	
	Water and Wastewater Fund	Environmental Services Fund
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>		
Operating income (loss)	\$ (372,699)	\$ 620,813
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	5,628,635	714,893
Landfill closure and postclosure costs	–	562,288
(Increase) decrease in assets:		
Accounts receivable	81,813	(26,598)
Allowance for doubtful accounts	(40,000)	(1,529)
Inventories	76,430	–
Increase (decrease) in liabilities:		
Accounts payable	(412,983)	(68,547)
Accrued payroll and compensated absences	(6,084)	(2,365)
Deposits payable	(111,456)	–
Deferred revenue	34,186	(813)
Total Adjustments	<u>5,250,541</u>	<u>1,177,329</u>
Net cash provided (used) by operating activities	<u>\$ 4,877,842</u>	<u>\$ 1,798,142</u>
Noncash investing, capital and financing activities:		
Capital assets acquired through contributions from developers	\$ 18,807,390	\$ –
Total noncash investing, capital and financing activities	<u>\$ 18,807,390</u>	<u>\$ –</u>

The notes to the financial statements are an integral part of this statement

			Governmental Activities
Airport Fund	Stormwater Fund	Total	Internal Service Fund
\$ (2,029,092)	\$ (161,188)	\$ (1,942,166)	\$ 66,515
1,827,546	12,439	8,183,513	-
-	-	562,288	-
(5,143)	(1,630)	48,442	(5,187)
-	-	(41,529)	-
-	-	76,430	-
93,231	-	(388,299)	284,652
(1,587)	7,268	(2,768)	-
5,894	(26,199)	(131,761)	-
163,787	-	197,160	-
2,083,728	(8,122)	8,503,476	279,465
\$ 54,636	\$ (169,310)	\$ 6,561,310	\$ 345,980
\$ -	\$ 593,477	\$ 19,400,867	\$ -
\$ -	\$ 593,477	\$ 19,400,867	\$ -
			(concluded)

**CITY OF FLAGSTAFF, ARIZONA**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2006**

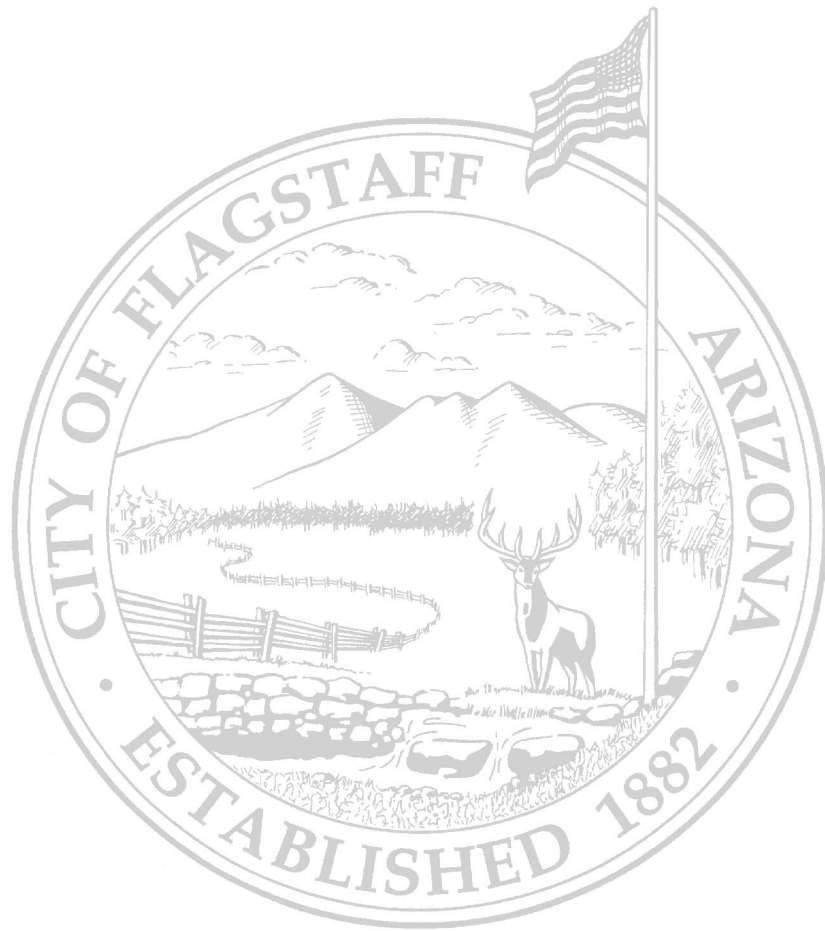
	Firemen's Pension Fund
<b>ASSETS</b>	
Cash and cash equivalents	\$ 215,780
Interest receivable	1,457
Total assets	<u>217,237</u>
<b>LIABILITIES</b>	
Other liabilities	<u>-</u>
Total liabilities	<u>-</u>
<b>NET ASSETS</b>	
Held in trust for pension benefits and other purposes	<u><u>\$ 217,237</u></u>

The notes to the financial statements are an integral part of this statement

**CITY OF FLAGSTAFF, ARIZONA**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**Year Ended June 30, 2006**

	Firemen's Pension Fund
<b>ADDITIONS:</b>	
Investment earnings	\$ 6,831
Total additions	<u>6,831</u>
 <b>DEDUCTIONS:</b>	
Retirement payments	<u>7,200</u>
Total deductions	<u>7,200</u>
 Change in net assets	 <u>(369)</u>
 Net assets – beginning of year	 <u>217,606</u>
Net assets – end of year	<u><u>\$ 217,237</u></u>

The notes to the financial statements are an integral part of this statement



# CITY OF FLAGSTAFF, ARIZONA

## Notes to the Financial Statement

### June 30, 2006

#### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### A. FINANCIAL REPORTING ENTITY

The City of Flagstaff (the City) was incorporated as a town in 1894 and as a city in 1928. The current City Charter was approved June 29, 1998. The Charter provides for the Council-Mayor form of government and the authority to provide municipal services, as limited by the State Constitution.

The accounting policies of the City of Flagstaff conform to United States of America generally accepted accounting principles (GAAP) as applicable to Governmental Units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

During the year ended June 30, 2006, the city implemented the provisions of GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*. GASB Statement No. 44 allows for the presentation of detailed information in 10-year trends, when available. The statistical section is to assist users in utilizing the basic financial statements, notes to the basic financial statements, and required supplementary information to assess the economic condition of a government.

The City of Flagstaff is a municipal corporation governed by an elected Mayor and six-member council. The accompanying financial statements include the City and all of its component entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Discretely presented component units are reported in a separate column in the Government Wide Statement of Net Assets and Activities to emphasize they are legally separate from the government. The City of Flagstaff has no discretely presented component units.

**Blended Component Unit:** The Municipal Facilities Corporation (MFC) is a non-profit corporation created by the City for the purpose of constructing, acquiring and equipping municipal facilities. For Financial reporting purposes, transactions of the MFC are included as if it were part of the City's operations. In fiscal year 2001 the MFC issued \$4.7 million in bonds for construction on additional facilities owned by the City and currently leased to the United States Geological Survey (USGS). These bonds will be repaid through USGS lease proceeds. In fiscal year 2004 the MFC issued \$25 million in bonds for construction of the Fourth Street Overpass. The voters approved this debt financing in the May 2000 General Election. These bonds will be repaid with the transportation sales tax that was also approved in the May 2000 Election.

**Related Organizations:** The City of Flagstaff officials are also responsible for appointing board members of other organizations. However, as the City's control is limited to making the appointments and there is not a significant operational nor a significant financial relationship between these organizations and the City, they are not included as part of these financial statements.

## **B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (statement of net assets and statement of activities) report on the City and its component units as a whole, excluding fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely a significant extent on fees and charges for support. All activities, both governmental and business type, are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

Generally, the effect of interfund activity has been removed from the government-wide financial statement. Net interfund activity and balances between governmental activities and business-type activities are shown in the government-wide financial statements.

Interdepartmental services performed by one department for another are credited to the performing department and charged to the receiving department to reflect the accurate costs of programs. These indirect costs have been included as part of the program expenses reported for the various functional activities. The rates used are intended to reflect full costs in accordance with generally accepted cost accounting principles.

The government-wide statement of net assets reports all financial and capital resources of the government (excluding fiduciary funds). It is displayed in a format of assets less liabilities equals' net assets, with the assets and liabilities shown in order of their relative liquidity. Net assets are required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or law or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. Generally, the City would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Reservations or designations of net assets imposed by the reporting government, whether by administrative policy or legislative actions of the reporting government, are not shown on the government-wide financial statements.

The government-wide statement of activities demonstrates the degree to which the direct expenses of the various functions and segments of the City are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Interest on general long-term debt and depreciation expense on assets shared by multiple functions are not allocated to the various functions. Program revenues include: 1) charges to customers or users who purchase, use or directly benefit from goods, services or privileges provided by a particular function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, investment income and other revenues not identifiable with particular functions or segments are included as general revenues. The general revenues support the net costs of the functions and segments not covered by program revenues.

Also part of the basic financial statements are fund financial statements for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although the reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or

expenditures/expenses of fund category and of the governmental and enterprise funds combined), it also gives governments the option of displaying other funds as major funds. The City has opted to add the Bed, Board, and Booze (BBB) Fund as major fund because of community focus. Other non-major funds are combined in a single column on the fund financial statements and are detailed in combining statements included as supplementary information after the basic financial statements.

GASB Statement 34 requires reporting of infrastructure such as roads, bridges, canal systems, ditches, water systems, sewer systems, and recreational assets on a prospective basis effective July 1, 2002 and retrospectively for all major infrastructure assets acquired or constructed since 1980. This reporting is required to be in place by fiscal year 2007. Accordingly, infrastructure assets acquired or constructed beginning in 1980 through June 30, 2002 are not included in the government-wide financial statements.

### **C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recorded as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. This is the traditional basis of accounting for governmental funds. This presentation is deemed most appropriate to 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the City's actual revenues, and expenditures conform to the annual budget. Since the governmental fund financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

The proprietary fund and fiduciary fund financial statements are prepared on the same basis (economic resources measurement focus and accrual basis of accounting) as the government-wide financial statements. Therefore, most lines for the total enterprise funds on the proprietary fund financial statements will directly reconcile to the business-type activities column on the government-wide financial statements. Because the enterprise funds are combined into a single business-type activities column on the government-wide financial statements, certain interfund activities between these funds may be eliminated in the consolidation for the government-wide financial statements, but are included in the fund columns in the proprietary fund financial statements. The net costs/income of the internal service fund is also partially allocated to the business-type activities column on the government-wide financial statements. A reconciliation of the total enterprise funds on the fund financial statements to the business-type activities column on the government-wide financial statements is provided on the face of the fund statements.

On the proprietary fund financial statements, operating revenues are those that flow directly from the operations of that activity, i.e. charges to customers or users who purchase or use the goods or services of that activity. Operating expenses are those that are incurred to provide those goods or services. Non-operating revenues and expenses are items like investment income and interest expense that are not a result of the direct operations of the activity.

The City uses funds to report its financial position and the results of its operations. Fund accounting segregates funds according to their intended purpose and is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a

separate accounting entity with a self-balancing set of accounts, which includes assets, liabilities, fund equity, revenues and expenditures/expenses.

The City uses the following fund categories:

## GOVERNMENTAL FUND TYPES

*Governmental funds* are those through which most of the governmental functions of the City are financed. The measurement focus is based upon determination of changes in financial position rather than upon net income determination.

*General Fund* is the primary operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General fund will always be considered a major fund in the basic financial statements.

*Special Revenue Funds* are used to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are legally restricted to expenditures for specified purposes. There are three special revenue funds that are presented as major funds in the basic financial statements. They are the:

- *Highway User Revenue Fund*, which receives and expends the City's allocation of the Highway User Revenue money. Monies allocated to this fund must be used for Street construction, reconstruction and maintenance.
- *Transportation Tax Fund* that accounts for the receipt and expenditures of the Transportation Tax money. These monies are restricted to financing improvements in the Areas of the 4<sup>th</sup> Street overpass project, Safe to School/Pedestrian and Bike projects, Traffic Flow and Safety improvements, and Transit Service operations and enhancements.
- *Bed, Board and Booze Tax Fund* that accounts for the Bed, Board and Booze tax revenues and expenditures. These monies are restricted for use in the areas of Beautification, Economic Development, Tourism, Arts & Science, and Recreation.

*Debt Service Funds* are used to account for the accumulation of resources for, and the payment of, general long-term obligation principal and interest.

*Capital Projects Fund* is used to account for major capital acquisition and construction separate from ongoing operating activities.

- The *Capital Project Bond Construction Fund* is a major fund and accounts for the activity related to the General Bonding Obligations and associated capital construction for capital projects as approved by voters in May 2004.

*Permanent Funds* are used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs.

- The *Perpetual Care Fund* accounts for the perpetual care of the City's cemetery.

## PROPRIETARY FUND TYPES

*Proprietary Funds* are used to account for the City's ongoing organizations and activities, which are similar to those found in the private sector and where cost recovery and the determination of net income is useful or necessary for sound fiscal management. The measurement focus is based upon determination of net income, changes in net assets, financial position, and cash flows.

Enterprise Funds are used to account for operations that provide services to the general public for a fee. Under GASB Statement No. 34, enterprise funds are also required for any activity whose principal revenue sources meet any of the following criteria: 1) any activity that has issued debt backed solely by the fees and charges of the activity, 2) if the cost of providing services for an activity, including capital costs such as depreciation or debt service, must legally be recovered through fees and charges, or 3) it is the policy of the City to establish activity fees or charges to recover the cost of providing services, including capital costs. The City has four enterprise funds all of which are presented as major funds in the basic financial statements. These include the City's water and wastewater system, environmental services, airport, and stormwater.

Internal Service Fund accounts for the operations that provide services to other departments of the government on a cost-reimbursement basis, thus the internal service fund is presented with the proprietary fund financial statements. The internal service fund represents the self-insurance services provided to other departments and accounts for the risk management function of the City as well as maintaining the costs of the City's liability insurance and any claims paid under the City's self-insurance program. These costs are allocated to all operational activities of the City.

### **Private Sector Standards**

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

### **FIDUCIARY FUND TYPES**

Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and other funds. The reporting focus is on net assets and changes in net assets and employs accounting principles similar to proprietary funds. Fiduciary funds are not included in the government-wide financial statements since they are not assets of the City available to support City programs.

Firemen's Pension Fund is a pension trust fund that is used to account for the activity of the City's single-employer retirement system. This fund is accounted for on the same basis as a proprietary fund, using the same measurement focus and basis of accounting.

### **Non-Current Governmental Assets/Liabilities**

GASB Statement No. 34 eliminates the presentation of account groups (formerly the general fixed asset account group and the general long-term debt account group). The governmental long-term assets and liabilities continue to be maintained in the account groups for tracking purposes, but are presented with the governmental activities in the government-wide statement of net assets.

### **Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds are accounted for using a current financial resources measurement focus whereby only current assets and current liabilities are generally included on the balance sheet. Operating statements present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Enterprise funds and pension trust funds are accounted for on a flow of economic resources measurement focus whereby all assets and liabilities associated with the operation of these funds are included on the balance sheet. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The modified accrual basis of accounting is used by governmental funds. Revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers revenues to be available if they are collected within 60 days after year-end.

Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

Revenues susceptible to accrual include property tax, privilege license tax, highway user tax, state shared sales tax, vehicle license tax, and interest earned on investments. Licenses and permits, charges for services, fines and forfeitures, parks and recreation charges and miscellaneous revenues are recorded when received in cash since they are generally not measurable until actually received.

The accrual basis of accounting is followed for all enterprise funds and the pension trust fund, whereby revenues are recognized in the accounting period in which they are earned and become measurable, and expenses are recognized when incurred.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating items.

### **Budgets and Budgetary Accounting**

The City uses the following procedures in establishing the budgetary data reflected in the accompanying financial statements.

- The maximum legal expenditure permitted for the year is the total budget as adopted. The expenditure appropriations in the adopted budget are maintained in the City's financial system by department within individual funds. Department appropriations may be amended during the year, within administrative guidelines and adopted Council policies.
- The initial budget for the fiscal year may be amended during the year in a legally permissible manner.
- The City Manager is generally authorized to transfer budgeted amounts within any specific department's expenditure appropriation. Any budget revisions requiring a transfer between departments must be approved by the City Council. Additionally, budget revisions involving personnel or capital asset expenditures/expenses must be approved by the City Council.
- All unencumbered expenditure appropriations expire at the end of the fiscal year.
- Encumbered amounts are re-budgeted in the following year as deemed appropriate and necessary after review by the Budget Committee. Budgetary carry forwards are approved by the City Council as part of the budget adoption process.

- All funds of the City have legally adopted budgets with the exception of the Internal Service Fund and Perpetual Care Fund. Formal integration of these budgets into the City's financial systems is employed as a management control device during the year for all funds.

The City prepares its annual budget on a modified cash basis, which differs from GAAP, GASB Statement #34 requires that budgetary comparison statements for the General Fund and major special revenue funds be presented in the annual financial statements. These statements must display original budget, amended budget and actual results on a budgetary basis at the legal level of budgetary control. The City's legal level of budgetary control is at the department level; however the City's financial statements are presented at the functional level of detail. Budgetary comparisons provided in the basic financial section are presented for the General Fund and major special revenue funds at the department level; these are presented as statements. The supplemental section provides budgetary comparisons for non-major special revenue funds, capital projects funds and debt service funds at the same functional level of detail used in financial statements presentation; these are presented as schedules.

## **D. ASSETS, LIABILITIES, AND NET ASSETS**

### **Pooled Cash and Investments**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to invest in the State's Local Government Investment Pool, in obligations of the U.S. Treasury, commercial paper and repurchase agreements. Investment Income from pooled cash and investments is allocated monthly based on the percentage of a fund's average daily equity in pooled cash and investments to the total average daily-pooled equity in pooled cash and investments. Investments are stated at fair value.

For purposes of the statement of cash flows, the City considers cash and cash equivalents, including restricted cash and cash equivalents, to be currency on hand, demand deposits with banks, amounts included in pooled cash and investment accounts and liquid investments with a maturity of three months or less when purchased. Cash and cash equivalents are included in both unrestricted as well as restricted assets.

### **Receivables and Payables**

Accounts receivable and taxes receivable, are shown net of an allowance for uncollectible accounts. The City's property tax is levied each year on or before the third Monday in August based on the previous January 1, full cash value as determined by the Coconino County Assessor. Levies are due and payable in two installments on September 1 and March 1. First half installments become delinquent on November 1; second half installments become delinquent on May 1. Interest at the rate of 12% per annum accrues following delinquent dates. Coconino County bills and collects all property taxes, at no charge to the taxing entities. A lien against property assessed attaches on the first day of January preceding assessment and levy thereon.

Under Arizona tax laws, there are two property tax levies, primary and secondary. Primary property taxes are not restricted as to use and are used to finance the general operations of the City. Secondary property taxes are restricted for general obligation bonded debt service. The secondary property tax levy is recorded as revenue in a debt service fund and transferred to the Water and Wastewater Enterprise Fund, the BBB Fund, the Airport Enterprise Fund and the General Obligation Bond Fund. General Obligation bonds are serviced by each of these funds. For fiscal year 2005-2006, primary and secondary property tax collections amounted to \$4,208,605 and \$4,881,323 respectively.

**Inventory**

Inventory is valued at cost, which approximates market, using the weighted average cost method. Inventory consists of expendable supplies held for consumption and is charged to expenditure accounts as consumed.

**Restricted Assets**

Certain debt proceeds of the City’s bonds, as well as certain resources set aside for their repayment, are classified as restricted on the balance sheet, or statement of net assets, because they are maintained in trust accounts and their use is limited by applicable debt covenants.

**Grant Revenue**

The City, a recipient of grant revenues, recognizes revenues (net of estimated uncollectible amounts, if any), when all applicable eligibility requirements, including time requirements, are met. Resources transmitted to the City before the eligibility requirements are met are reported as deferred revenues. Some grants and contributions consist of capital assets or resources that are restricted for capital purposes – to purchase, construct, or renovate capital assets associated with a specific program. These are reported separately from grants and contributions that may be used either for operating expenses or for capital expenditures of the program at the discretion of the City.

**Capital Assets**

Prior to GASB Statement No. 34, capital assets for governmental funds were recorded in the General Fixed Assets Account Group and were not depreciated. The new reporting model requires that all capital assets, whether owned by governmental activities or business-type activities, be recorded and depreciated (unless the modified approach is used) in the government-wide financial statements. The City has chosen not to apply the modified approach to any networks or subsystems of infrastructure assets. No long-term assets or depreciation are shown in the governmental fund financial statements.

Capital assets, including public domain infrastructure (i.e., roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and other assets that are immovable and of value only to the City) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 (\$25,000 for capital improvement projects and infrastructure assets) and an estimated useful life greater than three years. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its life, are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Major capital outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, if material.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives (land and construction-in-progress are not depreciated):

<u>Assets</u>	<u>Useful life (years)</u>
Buildings	20–50
Improvements	10–20
Machinery and Equipment	5–20
Infrastructure	10–50

## Outstanding Contracts

At June 30, 2006 there were major uncompleted construction contracts as follows:

Airport Fund	\$ 986,896
HURF	299,179
Transportation Fund	9,478,094
General Fund	66,768
Stormwater Fund	1,541,486
BBB Recreation Fund	4,248,761
Capital Projects Fund	2,210,922
Water and Wastewater Fund	813,824
	<hr/>
	\$ 19,645,930

On December 1, 2004, the City entered into a development agreement with Railhead Associates, LLC to redevelop and expand the Flagstaff Mall and general improvements in traffic flow, utilities and detention in the East Flagstaff Gateway Redevelopment area with the collateral benefit of creating additional development, including, but not limited to, an auto park for automobile sales and mixed use developments. As part of the agreement, the City is contributing \$10 million to this redevelopment project. Payments are being made on a percentage of completion basis. On June 30, 2006 the outstanding balance on this contract was \$9 million. The agreement will terminate on the date that the developer has completed 100% of the improvements as outlined in the development agreement and the City has made the final payment of \$1 million.

## Compensated Absences

Vacation and sick leave is granted to all regular and part-time permanent employees. The annual amount of vacation time accrued varies depending on classification and years of service. Accumulated vacation leave vests and the City is obligated to make payment if the employee terminates. For the governmental fund financial statements, the current payroll and current portion of the compensated absences are recorded as a current liability of the applicable funds. Long-term liabilities of governmental funds are not shown on the fund financial statements. For the government-wide financial statements, as well as the proprietary fund financial statements, all of the accrued liabilities for compensated absences are recorded as a liability.

Sick leave accrues at rates based on the classification of each employee and years of service. Vested (at least 20 years of service) sick leave is payable upon retirement, disability or death of up to 50 percent (not more than 520 hours) of accumulated sick leave. These amounts are also accumulated in the government and business-type fund statements as well as the government-wide statements.

## Long-Term Obligations

In the government-wide financial statements, and enterprise fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs in the period in which the bonds are issued. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### **Interfund Transactions**

Interfund transactions, consisting of services performed for other funds or costs billed to other funds are treated as expenditures in the fund receiving the services and as a reimbursement reducing expenditures in the fund performing the services. Exceptions include water sales, sewer charges, and environmental service charges that are recorded as revenue in the enterprise funds and expenses or expenditures in the department receiving the service. In addition, operating transfers are made between funds to shift resources from a fund legally authorized to receive revenue to a fund authorized to expend the revenue.

### **Fund Equity**

In the fund financial statements, reserved fund equity is defined as that portion of fund equity that has legally been segregated for specific purposes. Designated fund equity is defined as that portion of fund equity for which the City has made tentative plans for future use of financial resources. Unreserved/Undesignated fund equity is defined as that portion of fund equity, which is available for use in a future period.

### **Statement of Cash Flows**

The City considers all highly liquid investments (including restricted assets) with an original maturity of three months or less to be cash equivalents. In a statement of cash flows, cash receipts and payments are classified according to whether they stem from operating, non-capital financing, capital and related financing, or investing activities.

### **Use of Estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Arbitrage**

Arbitrage is generated when the a local government temporarily reinvests bond proceeds (generally during construction periods) and interest earnings are generated in excess of the interest due and payable on the bond. While there are certain exceptions in which the local government may keep the excess earnings, most instances require that the local government remit these excess earnings to the federal government. Rebatable amounts are recorded at such time they are actually due and payable to the federal government. The City of Flagstaff is currently having all debt issues reviewed for arbitrage liability. No liability has been anticipated at fiscal year end.

## **II. Reconciliation of government-wide and fund financial statements**

### **A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets**

The governmental fund financial statements are presented on a current financial resources measurement focus and modified accrual accounting basis while the government-wide financial statements are prepared on a long-term economic resources measurement focus and accrual accounting basis. Reconciliation's briefly explaining the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements immediately follow each fund financial statement.

Reconciliation of Governmental Funds Balance Sheet and the government-wide Statement of Net Assets:

	Total Governmental Funds	Capital Assets (1)	Long-Term Liabilities (2)	Internal Service Fund (3)	Reclass and Eliminations	Statement of Net Assets Totals
<b>Assets</b>						
Cash and cash equivalents	\$ 45,530,236	\$ -	\$ -	\$ 5,111,096	\$ -	\$ 50,641,332
Cash with fiscal agents	7,385,221	-	-	-	-	7,385,221
Investments	31,110,440	-	-	-	-	31,110,440
Accounts receivable, net	9,195,246	-	321,692	73,110	-	9,590,048
Interest receivable	552,215	-	-	33,771	-	585,986
Intergovernmental receivables	2,415,818	-	-	-	-	2,415,818
Bond proceeds receivable	99,569	-	-	-	-	99,569
Special assessments receivable	3,934	-	-	-	-	3,934
Interfund receivable	7,265,000	-	-	418,913	(7,265,000)	418,913
Unamortized issuance costs – Prepaid items	-	-	668,561	-	-	668,561
Inventory	253,461	-	-	-	-	253,461
Restricted cash and cash equivalents	1,698,025	-	-	-	-	1,698,025
Capital assets	-	137,246,431	-	-	-	137,246,431
<b>Total Assets</b>	<b>\$ 105,509,165</b>	<b>\$ 137,246,431</b>	<b>\$ 990,253</b>	<b>\$ 5,636,890</b>	<b>\$ (7,265,000)</b>	<b>\$ 242,117,739</b>
<b>Liabilities and Net Assets</b>						
Accounts payable	\$ 3,452,162	\$ -	\$ -	\$ 555,289	\$ -	\$ 4,007,451
Accrued payroll and compensated absences	1,361,804	-	-	-	(108,557)	1,253,247
Interest payable	1,293,077	-	-	-	8,605	1,301,682
Interfund payable	7,265,000	-	-	-	(7,265,000)	-
Unearned revenue	645,727	-	-	-	-	645,727
Deferred revenue	122,687	-	(122,687)	-	-	-
Guaranty and other deposits	1,452,154	-	-	-	-	1,452,154
Unamortized bond premium	-	-	1,182,895	-	-	1,182,895
Liabilities payable from restricted assets	1,432,120	-	-	-	-	1,432,120
Compensated absences	-	-	2,601,616	-	108,557	2,710,173
Current bonds/contracts payable	6,093,605	-	71,944,551	-	(8,605)	78,029,551
Fund balance/Net Assets	82,390,829	137,246,431	(74,616,122)	5,081,601	-	150,102,739
<b>Total liabilities and net assets</b>	<b>\$ 105,509,165</b>	<b>\$ 137,246,431</b>	<b>\$ 990,253</b>	<b>\$ 5,636,890</b>	<b>\$ (7,265,000)</b>	<b>\$ 242,117,739</b>

- (1) Capital assets (land, buildings, equipment, etc.) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds, and thus a reduction in fund balance. However, the statement of net assets includes those capital assets among the assets of the City as a whole.

Costs of capital assets	\$ 173,474,461
Accumulated depreciation	(36,228,030)
	<u>\$ 137,246,431</u>

- (2) Bond issuance costs are expensed when incurred in governmental funds, but are deferred and amortized over the life of the bonds in the statement of net assets.

Unamortized bond issue costs	<u>\$ 668,561</u>
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Certain receivables are not recognized in the governmental funds, but are earned in the statement of net assets.

Deferred court receivables	<u>\$ 321,692</u>
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Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period, and accordingly are not reported as fund liabilities in the governmental fund statement. All liabilities, both current and long-term are reported in the statement of net assets.

Bonds payable	\$ 78,029,551
Compensated absences	2,710,173
Unamortized bond premium	1,182,895
Subtotal	<u>81,922,619</u>
Less: current portion compensated absences	108,557
current portion of bonds and leases	6,085,000
	<u>\$ 75,729,062</u>

Deferred revenue for the long-term special assessment receivables and property tax shown on the governmental fund statements is not deferred on the statements of net assets.

Deferred special assessment	\$ 3,934
Deferred property tax	118,753
	<u>\$ 122,687</u>

- (3) Internal service funds are used by management to charge the costs self insurance to the individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets, but are not included on the governmental fund balance sheet.

	<u>\$ 5,081,601</u>
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**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

Reconciliation of Governmental Funds Statements of Revenues, Expenditures and Changes in Fund Balance and the government-wide Statement of Activities:

	Total Governmental Funds	Capital Related Items (1)	Long-Term Revenues/ Expenses (2)	Internal Service Fund (3)	Adjustments and Eliminations	Statement of Activities Totals
<b>Revenues and Other Sources</b>						
Taxes	\$ 39,104,903	\$ -	\$ (38,770)	\$ -	\$ -	\$ 39,066,133
Intergovernmental	17,173,416	-	-	-	-	17,173,416
Grants and entitlements	10,880,792	-	-	-	-	10,880,792
Charges for services	2,199,819	-	-	-	-	2,199,819
Special assessments	30,016	-	(30,016)	-	-	-
Licenses and permits	2,834,506	-	-	-	-	2,834,506
Fines and forfeitures	1,394,174	-	273,917	-	-	1,668,091
Rent	1,195,464	-	-	-	-	1,195,464
Investment earnings	2,238,285	-	-	146,814	-	2,385,099
Contributions	129,930	11,960,124	-	-	-	12,090,054
Miscellaneous	204,678	-	-	-	-	204,678
Total revenue	77,385,983	11,960,124	205,131	146,814	-	89,698,052
<b>Expenditures/Expenses</b>						
General governmental	6,621,976	695,750	146,438	(5,581)	-	7,458,583
Public safety	21,626,547	752,445	163,275	(16,975)	-	22,525,292
Public works	1,168,424	267,209	20,195	(1,097)	-	1,454,731
Economic and physical development	7,640,313	125,185	83,400	(5,913)	-	7,842,985
Culture and recreation	7,178,029	1,084,974	72,221	(6,279)	-	8,328,945
Highways and streets	10,700,196	1,278,895	73,230	(9,079)	-	12,043,242
Principal retirement	6,505,449	-	(6,505,449)	-	-	-
Interest and other charges	2,552,016	-	(384,390)	-	-	2,167,626
Capital outlay	25,054,173	(25,054,173)	-	-	-	-
Total expenditures/expenses	89,047,123	(20,849,715)	(6,331,080)	(44,924)	-	61,821,404
<b>OTHER FINANCING SOURCES (USES):</b>						
Bond proceeds	31,500,000	-	(31,500,000)	-	-	-
Bond (discount) premium	220,086	-	(220,086)	-	-	-
Sale of capital assets	37,892	(4,475)	-	-	-	33,417
Transfers in	17,317,133	-	-	-	-	17,317,133
Transfers out	(19,584,684)	-	-	-	-	(19,584,684)
Total other financing sources (uses)	29,490,427	(4,475)	(31,720,086)	-	-	(2,234,134)
Net change for the year	\$ 17,829,287	\$ 32,805,364	\$ (25,183,875)	\$ 191,738	\$ -	\$ 25,642,514

- (1) When capital assets that are to be used in the governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of the financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year.

Capital outlay	\$	25,054,173
Depreciation expense		(4,204,458)
Gain (loss) on sale of capital assets		(4,475)
Donated capital assets		11,960,124
	\$	<u>32,805,364</u>

- (2) Special assessment principal payments received are reported as revenue on the governmental fund statements, but are reductions to the outstanding special assessment debt for government-wide reporting. Property tax revenue not received within 30 days of year end are deferred for governmental fund reporting, but are not deferred for government-wide reporting.

Special assessment received	\$	(30,016)
Property tax		(38,770)
Court revenue		273,917
	\$	<u>205,131</u>

The costs of issuing bonds are reported as an expenditure in governmental funds in the year of bond issuance. For the City as a whole, however, the bond issuance costs are deferred and amortized (expensed) over the life of the bonds.

Amortization of bond issuance costs	\$	<u>(69,277)</u>
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Accrual of long-term compensated absences	\$	<u>(489,482)</u>
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Prepayment of bond principal is reported as an expenditure in governmental funds and thus has the effect of reducing fund balance because current financial resources have been used. For the City as a whole, however, the principal payments reduce the long-term liabilities in the statement of net assets and do not result in an expense in the statement of activities

Principal bond payments	\$	6,505,449
Bond issuance		(31,500,000)
Bond premium		(220,086)
Bond issuance costs		264,666
Amortization of bond premium		119,724
	\$	<u>(24,830,247)</u>

- (3) Internal service funds are used by management to charge the costs of self insurance to the individual funds. The adjustments for internal service funds "close" those funds by charging the additional amounts to participating governmental activities to completely cover the internal service funds' costs for the year.

Revenue	\$	146,814
Expenditures		44,924
	\$	<u>191,738</u>

## C. FUND BALANCE – NET ASSET RESTATEMENT

### Change in Accounting Estimate

After a review of the presentation of compensated absences the City discovered an accounting error in estimating its' governmental compensated absences. This resulted in a prior period adjustment to net assets and fund balance. The net effect of these movements is shown as an adjustment to beginning fund balance and net assets.

	Governmental Fund Balance at June 30, 2005	Change in accounting estimate for compensated absences	Governmental Fund Balance at July 1, 2005
Fund Balance Restatement			
General Fund	\$ 29,325,196	\$ 571,679	\$ 29,896,875
Highway User Revenue Fund	8,970,870	35,691	9,006,561
Transportation	12,362,694	–	12,362,694
BBB Fund	6,438,044	7,040	6,445,084
Transportation	(970,005)	–	(970,005)
Other Governmental Funds	7,797,529	22,804	7,820,333
Total fund balances	<u>\$ 63,924,328</u>	<u>\$ 637,214</u>	<u>\$ 64,561,542</u>
Net Asset Restatement			
Governmental Activities – Total Net Assets	<u>\$ 123,823,011</u>	<u>\$ 637,214</u>	<u>\$ 124,460,225</u>

## III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### A. BUDGETARY INFORMATION

#### Budget Basis of Accounting

The City's accounting records for General Government operations (General, Special Revenue, and Debt Service Funds) are maintained on a basis consistent with Generally Accepted Accounting Principles (GAAP) with measurable revenues recorded when they become available to finance expenditures in the current fiscal year. "Available" is defined as: collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than principal and interest on debt, are recognized in the accounting period in which the liability arises. State statute allows for encumbrances to be recognized for a 60-day period following the end of the prior fiscal year as uses of prior year appropriations. To ensure that appropriations do not lapse, departments are directed to re-budget for all items delivered after June 30.

For the Enterprise Funds, the annual budget is prepared on a basis that differs from GAAP because state law requires capital purchases and debt service payments to be budgeted as expenses, and bond proceeds and grants that are to be utilized are to be budgeted as revenues.

The accounting and budgeting systems for the City are in accordance with Generally Accepted Accounting Principles (GAAP) format, with minimal variances between the two systems. Budget basis for enterprise funds differ primarily due to state laws. The major differences are as follows:

- Encumbrances (contractual commitments) are considered the equivalent of expenditures. Encumbrances at year-end for goods or services, which are not received prior to the end of the fiscal year, are cancelled.

- Fund balances reserved to inventory and bonded debt are not included in the budget.
- Certain expenditures, such as depreciation and landfill closure and post closure accrual, are not included in the budget.
- Enterprise funds budget capital expenditures and debt service payments as expenses.
- Enterprise funds budget bond proceeds and grants as revenues.

The City will utilize a number of different fund types to segregate the financial activity within the City either due to regulatory reasons or as designated internally. The fund classifications are Governmental funds, Proprietary funds and Fiduciary funds.

### **Review and Approval**

Issues presented during the review and approval period include discussion topics of the Council fall and spring retreats. The fall and spring retreats were held in October and March respectively, to give City staff the opportunity to present major discussion points to Council and the public. The goal is for Council to make policy decisions and direct staff in preparing the budget. This provides adequate time for the Council to gather input on major budget issues prior to preparation of the budget. The City Council holds Study Sessions in May. The Council reviews and discusses the issue papers included in the Budget Review Book as well as all personnel recommendations, capital equipment recommendations, and the capital improvement plan. The Council arrives at a consensus for all decisions needed. The Study Sessions provide the opportunity for City management, departments and the public to offer information and recommendations to the City Council.

The proposed budget is presented to Council for tentative adoption on or before the third Monday in July. Two public hearings are held on the content of the budget. State law requires the operating budget to be all-inclusive. Therefore, the budget includes provisions for contingent revenues, e.g., Passengers Facility Charges, and expenditures that cannot be accurately determined when the budget is adopted, e.g., grants. The Resolution adopting the annual budget requires Council authorization for any expenditure from contingencies, as well as transfer of budget authority between departments.

The City operates under the State Expenditure Limitation with a one-time adjustment to the base. The adjustment provided for an increase to the base limit to allow for the expenditure of funds resulting from the addition of a 2% Bed, Board, & Booze Tax. Flagstaff is not a Home Rule city. Alternative [Home Rule] Expenditure Control municipalities require voter approval every four years.

The Adopted Budget reflects the total funds appropriated. Certain exclusions are allowed by the state [e.g., bond proceeds, debt service, grants] in computing the Expenditure Limitation and this total cannot be exceeded.

Budget authority can be transferred between line items within a Division. At year-end, Department budgets are reviewed and budget authority is transferred from contingencies by Resolution as necessary. Additionally, any inter-fund transfer of appropriations requires Council approval. Council can also amend total appropriations for a fund during the year by Resolution as long as there is a corresponding increase/decrease in another fund so that the expenditure limitation is not exceeded.

## **B. Excess of Expenditures over Appropriations**

For the year ended June 30, 2006, the General Fund and Transportation Fund witnessed excess expenditures within their funds, however total City budget appropriation was not exceeded. General Fund expenditures exceeded appropriations in the Fire line by \$899,448; these over expenditures were funded by reduced spending in other expenditures lines. The Transportation program revenues fell short of projections by \$6 million due to a delayed real estate transaction, while expenditures exceeded appropriations in the Community Development and Non-departmental lines by \$142,201 and \$600,767, respectively. These over-expenditures were funded by reduced spending in other expenditures lines.

## **IV. DETAILED NOTES ON ALL FUNDS**

### **A. DEPOSITS AND INVESTMENTS**

The City maintains a cash and investment pool that is available for use by all funds except the Fireman's Pension Fund, which have investments held separately by a trustee. Each fund type's portion of this pool is displayed on the government-wide Statement of Net Assets as "Cash and cash equivalents," "Cash with fiscal agents," "Investments," and "Restricted cash and cash equivalents."

#### **Deposits**

At June 30, 2006, the carrying amount of the City's deposits was \$12,762,715 and the bank balance was \$15,515,168. The \$2,752,453 difference represents deposits in transit, outstanding checks, and other reconciling items at June 30, 2006.

#### **Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 102 percent of all deposits covered by federal depository insurance. As of June 30, 2006, the City deposits held by Wells Fargo and those held by fiscal agents were covered by federal depository insurance or by collateral held by the City's agent in the City's name. However, \$1.6 million held by Banc of America Leasing Corporation for capital lease improvements was not collateralized. These funds will be drawn down through out fiscal year 2007 as funded improvements are completed. GASB Statement No. 40 requires that the following disclosure be made with respect to custodial credit risks relating to deposits and investments: \$32,342 of the City's investments in certificates of deposit with financial institutions is in excess of federal depository insurance limits and thus is uncollateralized.

#### **Concentration of Credit Risk**

To lessen the risk of loss attributed to the magnitude of a government's investment in a single issuer the City diversifies its investment portfolio to minimize the risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of securities. Certificates of deposits and municipal bonds represent 5.6 percent of the City's total investments.

#### **Interest Rate Risk**

As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy matches maturities with cash flow dates, unless matched to a specific requirement the City may not invest more than 25 percent of the portfolio for a period greater than three years or any portion of the portfolio for a period greater than 10 years.

## Credit Risk

City resolution and State Statutes authorized the City to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, repurchase agreements, money market accounts, certificates of deposit and the State of Arizona Local Government Investment Pool (LGIP). The LGIP is a part of the State Treasurer's office. The State Board of Deposit provides oversight for the State Treasurer's pools, and the LGIP Advisory Committee provides consultation and advice to the Treasurer. Investments in the State of Arizona LGIP are stated at fair value, which also approximates the value of the investment upon withdrawal.

The credit quality ratings of investments as described by nationally recognized Standard and Poor's rating service as of June 30, 2006 is as follows:

Investment Type	Fair Value	Minimum Legal Rating	Not Required To Be Rated	Rating as of Year End		
				AAA	A+	Unrated
Federal agency securities	\$ 62,922,445	N/A		\$ 62,922,445	\$ -	\$ -
Certificates of Deposit:	6,181,037	Collateralized		-	-	6,181,037
State investment pool (LGIP)	40,074,399	N/A		-	-	40,074,399
Municipal Securities	50,000	A		-	50,000	-
Held by trustee:						
Investment contracts	1,627,612	N/A	-	-	-	1,627,612
Money market funds	55,962	N/A	-	-	-	55,962
Total	<u>\$ 110,911,455</u>		<u>-</u>	<u>\$ 62,922,445</u>	<u>\$ 50,000</u>	<u>\$ 47,939,010</u>

## Investments

At June 30, 2006, the City's investments included the following:

Investment Type	Fair Value	Weighted Average Maturity (in years)
U.S. Government Securities	\$ 62,922,445	1.639
Certificate of Deposit	6,048,695	1.482
Local Government Securities	132,342	0.277
Municipal Securities	50,000	4.000
Mutual fund-money market	1,683,574	0.003
State of Arizona Investment Pool	40,074,399	0.005
Total fair value of investments	<u>\$ 110,911,455</u>	
Portfolio weighted average maturity		1.015

Carrying amount of investments	\$ 110,911,455
Carrying amount of cash deposits	12,762,715
Total pooled cash and investments	<u>\$ 123,674,170</u>

Pooled cash and cash equivalents – unrestricted	\$ 71,409,574
Investments – unrestricted	31,160,440
Restricted cash with fiscal agent	10,758,141
Restricted cash and cash equivalents	10,346,015
Total pooled cash and investments	<u>\$ 123,674,170</u>

Cash and cash equivalents at June 30, 2006 consisted of the following:

Investments included in cash and cash equivalents	\$ 58,850,314
Carrying amount of city deposits	12,762,715
Cash on hand	12,325
Total cash and cash equivalents	<u>71,625,354</u>
Less: cash and cash equivalents of Fiduciary funds	(215,780)
Total cash and cash equivalents per statement of net assets	<u>\$ 71,409,574</u>

Investment income comprises the following for the year ended June 30, 2006:

Net interest and dividends	\$ 4,050,599
Net increase (decrease) in the fair value of investments	(477,014)
Total net investment income	<u>3,573,585</u>
Less: net investment income of Fiduciary funds	(6,650)
Total net investment income per statement of activities	<u>\$ 3,566,935</u>

The net decrease in the fair value of investments during fiscal year 2005–2006 was \$477,014. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized gain (loss) on investments held at June 30, 2006 was \$(1,264,699).

In previous years, the City reported a decrease in fair value of \$1,473,712 consisting of the City's share of a loss on an investment within the Local Government Investment Pool. The State and numerous other bondholders filed suit against the principals, underwriters, trustees, accountants and other in May 2003. The case is presently pending in federal court in Ohio. No reliable assessment of the litigation outcome is available; however, the City has received \$404,893 during the fiscal year plus interest of \$2,272 as a partial recovery with total to date recovery of \$573,566.

## B. RECEIVABLES

Receivables as of June 30, 2006, including allowances for uncollectible accounts, are as follows:

Fund	Accounts	Interest	Intergov- ernmental	Bond Proceeds	Special Assessments	Total Receivables
<b>Governmental Activities</b>						
General	\$ 5,758,736	\$ 184,181	\$ 1,585,799	\$ 99,569	\$ -	\$ 7,628,285
Highway User Revenue	3,491,270	70,103	203,447	-	-	3,764,820
Transportation	891,092	41,567	174,738	-	-	1,107,397
BBB	554,767	40,593	-	-	-	595,360
Capital Projects Bond Construction	-	149,774	-	-	-	149,774
Other Governmental Funds	69,798	65,997	451,834	-	3,934	591,563
Less: Allowance for Uncollectibles	(1,248,725)	-	-	-	-	(1,248,725)
<b>Total Government Funds</b>	<b>9,516,938</b>	<b>552,215</b>	<b>2,415,818</b>	<b>99,569</b>	<b>3,934</b>	<b>12,588,474</b>
Internal Services Funds	73,110	33,771	-	-	-	106,881
<b>Total Governmental Activities</b>	<b>9,590,048</b>	<b>585,986</b>	<b>2,415,818</b>	<b>99,569</b>	<b>3,934</b>	<b>12,695,355</b>
<b>Business-Type Activities</b>						
Water and Wastewater	2,056,332	141,063	23,720	-	-	2,221,115
Environmental Services	832,117	85,290	-	-	-	917,407
Airport	72,863	6,841	795,611	-	-	875,315
Stormwater	53,031	3,804	-	-	-	56,835
Less: Allowance for Uncollectibles	(60,000)	-	-	-	-	(60,000)
<b>Total Business-Type Activities</b>	<b>2,954,343</b>	<b>236,998</b>	<b>819,331</b>	<b>-</b>	<b>-</b>	<b>4,010,672</b>
<b>Total activities</b>	<b>\$ 12,544,391</b>	<b>\$ 822,984</b>	<b>\$ 3,235,149</b>	<b>\$ 99,569</b>	<b>\$ 3,934</b>	<b>\$ 16,706,027</b>

## C. CAPITAL ASSETS

The City has not completed its evaluation of the City's entire infrastructure as of June 30, 2006, and therefore, is considered to be in a transition period. This period represents the timing between the adoption of the general provisions of GASB Statement No. 34 and when the City begins to report its retroactive major general infrastructure assets. Infrastructure assets currently reported represent assets placed in service since the inception of GASB Statement No. 34, which became instrumental as of June 30, 2003. No infrastructure prior to this date has been accounted for. The City will complete the infrastructure evaluation prior to June 30, 2007.

A summary of capital asset activity, for the government-wide financial statements, for the fiscal year ended June 30, 2006 is as follows:

	Balance July 1, 2005	Additions	Deletions and Retirements	Transfers In (out)	Balances June 30, 2006
<b>Governmental activities:</b>					
Non-depreciable assets:					
Land	\$ 9,037,225	\$ 139,808	\$ -	\$ (5,735)	\$ 9,171,298
Construction -in-progress	31,420,232	17,711,308	-	(2,415,192)	46,716,348
Total non-depreciable assets	40,457,457	17,851,116	-	(2,420,927)	55,887,646
Depreciable assets:					
Buildings	36,575,691	449,930	-	-	37,025,621
Improvements	13,568,399	3,764,825	-	56,388	17,389,612
Machinery and equipment	21,858,149	2,131,212	(263,264)	25,133	23,751,230
Infrastructure	24,263,731	12,817,215	-	2,364,539	39,445,485
Total depreciable assets	96,265,970	19,163,182	(263,264)	2,446,060	117,611,948
Accumulated depreciation:					
Buildings	(10,775,144)	(837,634)	-	-	(11,612,778)
Improvements	(6,847,511)	(851,338)	-	-	(7,698,849)
Machinery and equipment	(13,639,475)	(1,566,791)	258,789	(25,133)	(14,972,610)
Infrastructure	(1,020,230)	(948,696)	-	-	(1,968,926)
Total accumulated depreciation	(32,282,360)	(4,204,459)	258,789	(25,133)	(36,253,163)
Governmental activities capital assets, net	\$ 104,441,067	\$ 32,809,839	\$ (4,475)	\$ -	\$ 137,246,431
	Balances July 01, 2005	Additions	Deletions and Retirements	Transfers In (out)	Balances June 30, 2006
<b>Business-type activities:</b>					
Non-depreciable assets:					
Land	\$ 2,357,360	\$ 7,943,437	\$ -	\$ -	\$ 10,300,797
Construction -in-progress	15,036,835	3,966,260	-	(5,849,749)	13,153,346
Total non-depreciable assets	17,394,195	11,909,697	-	(5,849,749)	23,454,143
Depreciable assets:					
Buildings	73,000,437	693,716	-	5,525,420	79,219,573
Improvements	232,756,918	20,032,110	-	324,329	253,113,357
Machinery and equipment	19,714,931	1,900,915	(830,152)	(25,133)	20,760,561
Total depreciable assets	325,472,286	22,626,741	(830,152)	5,824,616	353,093,491
Accumulated depreciation:					
Buildings	(26,552,195)	(1,737,464)	-	-	(28,289,659)
Improvements	(74,396,401)	(5,496,257)	-	-	(79,892,658)
Machinery and equipment	(11,152,187)	(949,792)	814,776	25,133	(11,262,070)
Total accumulated depreciation	(112,100,783)	(8,183,513)	814,776	25,133	(119,444,387)
Business-type activities capital assets, net	\$ 230,765,698	\$ 26,352,925	\$ (15,376)	\$ -	\$ 257,103,247

Depreciation expense was charged to the governmental functions in the government-wide financial statements as follows:

**Governmental Activities:**

General government	\$	695,750
Public safety		752,445
Public works		267,209
Economic and physical development		125,186
Culture and recreation		1,084,973
Highway and streets		1,278,896
Total depreciation expense – governmental activities	\$	<u>4,204,459</u>

## D. INTERFUND RECEIVABLES, PAYABLES, and TRANSFERS

### Interfund receivables and payables

Net interfund receivables and payables between governmental activities and business-type activities of \$418,913 are included in the government-wide financial statements at June 30, 2006. The interfund balances at June 30, 2006 are short-term loans to cover temporary cash deficits in various funds. This occasionally occurs prior to bond sales or grant reimbursements. With the exception of the \$94,897 between the Airport and Internal Service Fund, all interfund balances outstanding at June 30, 2006 are expected to be repaid within one year.

The following interfund receivables and payables are included in the fund financial statements at June 30, 2006:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
<b>Governmental Funds:</b>		
General	\$ 7,265,000	\$ –
Highway User Revenue	–	
Transportation	–	4,000,000
Capital Projects Bond Construction	–	2,930,000
Other governmental funds	–	335,000
Internal Service	94,897	–
Total governmental funds	<u>7,359,897</u>	<u>7,265,000</u>
<b>Business-Type Funds:</b>		
Water and wastewater	502,000	
Airport	–	596,897
Total enterprise funds	<u>502,000</u>	<u>596,897</u>
Total governmental and enterprise funds	<u>\$ 7,861,897</u>	<u>\$ 7,861,897</u>

### Transfers

The net transfers of \$2,267,551 from governmental activities to business-type activities on the government-wide statement of activities are primarily debt service and operational subsidies from the General Fund. There were no significant transfers during fiscal year 2006 that were either non-routine in nature or inconsistent with the activities of the fund making the transfer. The following transfers are reflected in the fund financial statements for the year ended June 30, 2006:

<u>Fund</u>	<u>Transfers out</u>	<u>Transfers In</u>
<b>Governmental Funds:</b>		
General	\$ 7,403,726	\$ 3,967,748
Highway User Revenue	1,135,401	7,079,650
Transportation	3,732,717	-
BBB	1,498,933	1,063,650
Other governmental funds	5,813,907	5,206,085
Total governmental funds	<u>19,584,684</u>	<u>17,317,133</u>
<b>Business-Type Funds:</b>		
Water and Wastewater	2,574,727	2,416,933
Environmental Services	19,488	-
Airport	127,234	430,863
Stormwater	135,000	2,276,204
Total enterprise funds	<u>2,856,449</u>	<u>5,124,000</u>
Total governmental and enterprise funds	<u>\$ 22,441,133</u>	<u>\$ 22,441,133</u>

## E. LEASES

### Operating Leases Expenditures

The City leases library space under a non-cancelable operating lease. The lease is for the East Flagstaff Library. The terms of the contract is for a period of 10 years with adjustments on July 1<sup>st</sup> to the lease amount based on the prior year change in the Consumer Price Index for the prior year. Fiscal Year 2006 lease expense for the library was \$75,268. The schedule below for future minimum lease expenses reflects the change in the rental rate as of July 1, 2006.

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>East Flagstaff</u> <u>Library</u>
2007	\$ 77,839
2008	77,839
2009	77,839
2010	77,839
2011	77,839
2012-2013	<u>129,732</u>
Total	<u>\$ 518,927</u>

The City has entered into several operating lease agreements, with cancellation provisions, for the purpose of leasing office space and land. Lease expenditures for these items for the period ending June 30, 2006 were \$139,551.

### Operating Lease Revenues

The City leases several City-owned buildings under cancelable and non-cancelable agreements. The carrying value of the leased assets is \$5,083,525 (cost of \$5,730,896 less accumulated depreciation of \$647,371) with current depreciation of \$185,614. Certain leases contain provisions for future rate increases based on changes in the Consumer Price Index. Total revenue for fiscal year 2006 was \$1,113,646. The City currently has one lease with non-cancelable terms that is for USGS building #6, which is guaranteed through August 2013. The following table represents the future minimum lease receivable from the lease with non-cancelable terms. The amounts shown include revenue related to the asset and the operational expenses.

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>USGS</u> <u>Building #6</u>
2007	\$ 774,100
2008	774,624
2009	774,624
2010	774,624
2011	774,624
2012-2013	<u>903,728</u>
Total	\$ <u><u>4,776,324</u></u>

In addition, the Airport Fund has several leases under cancelable agreements. The leases are for terminal space, hangars, shades, tiedowns, and ground leases. Lease revenue in the Airport fund for fiscal year 2006 was \$929,502. The carrying value of the leased assets is \$6,186,522 (cost of \$9,062,372 less accumulated depreciation of \$2,875,850) with current year depreciation of \$158,256.

## F. LONG-TERM DEBT

### General Obligation Bonds

The City of Flagstaff issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The original amount of general obligations bonds issued in prior years was \$40,844,240. During the year the City of Flagstaff issued general obligation bonds for capital projects in the amount of \$31,500,000 and \$90,292 of accretion had been added to Water and Wastewater General Obligation bonds.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. The Water and Wastewater General Obligation Bonds are backed by the ultimate taxing power and general revenues of the City; however, these bonds are carried as a liability of the Water and Wastewater Fund to reflect the intention of the City to retire those bonds from resources in the Water and Wastewater Fund.

General obligation bonds outstanding at June 30, 2006:

<u>Purpose</u>	<u>Amount</u>
Governmental activities	\$ 32,155,000
Governmental activities - refunding	720,000
Business type activities	2,089,726
Business type activities - refunding	<u>14,205,000</u>
	<u><u>\$ 49,169,726</u></u>

General obligation bonds payable at June 30, 2006 consist of the following individual issues:

Governmental Activities:

\$720,000 Parks and Recreation Refunding Bonds, Series 2003 due in annual installments of \$255,000 to \$465,000 through July 1, 2008; interest rate at 3.0% – 3.25%.	\$ 720,000
\$3,100,000 Parks and Recreation Bonds, Series 2001 due in annual installments of \$385,000 to \$505,000 through July 1, 2014; interest rate at 4.375% to 4.75%.	3,100,000
\$31,500,000 Capital Projects, Series 2006 due in annual installments of \$1,180,000 to \$2,445,000 through July 1, 2023; interest rate at 3.25% to 5.25%.	29,055,000
Total Governmental Activities	<u>32,875,000</u>

Business-type activities:

Water and Wastewater:

\$924,240 Wastewater Improvement Project of 1991 Capital Appreciation Bonds due in three installments: \$595,827 due July 1, 1997, plus interest at 5.8%; \$124,349 due July 1, 2002, plus interest at 6.3%; \$204,064 due July 1, 2007, plus interest at 6.75%. Shown at combined accreted value.	409,726
\$8,000,000 Water Improvement Project Bonds, Series 1997, principal payment of \$1,680,000 due July 1, 2013; interest at 4.5%. Fiscal years 2007–2012 refunded in December 2003.	1,680,000
\$13,845,000 Water and Wastewater Refunding Bonds Series 2001, due in annual installments of \$1,605,000 to \$2,355,000 through July 1, 2009; interest at 3% to 5%.	6,203,000
\$8,230,000 Water Refunding Bond, Series 2003, due in annual installments of \$190,000 to \$1,960,000 through July 1, 2013; interest at 3.0% – 3.25%.	<u>7,075,000</u>
Total Water and Wastewater	<u>15,367,726</u>

Airport:

\$2,025,000 Airport Refunding Bonds, Series 2001 due in annual installments of \$235,000 to \$345,000 through July 1, 2009; interest at 3% to 5%.	<u>927,000</u>
Total Business-type Activities	<u>16,294,726</u>
Total General Obligation Bonds	\$ <u>49,169,726</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 1,645,000	\$ 1,464,206	\$ 2,984,726	\$ 697,026
2008	1,880,000	1,391,257	2,795,000	545,100
2009	1,705,000	1,310,326	3,055,000	409,988
2010	1,780,000	1,236,851	1,770,000	263,450
2011	1,850,000	1,161,833	1,860,000	205,926
2012-2016	9,585,000	4,436,737	3,830,000	227,252
2017-2021	10,350,000	2,111,738		
2022-2023	4,080,000	206,574		
Total	<u>\$ 32,875,000</u>	<u>\$ 13,319,522</u>	<u>\$ 16,294,726</u>	<u>\$ 2,348,742</u>

### Special Assessment Bonds

Proceeds from special assessment bonds are used for improvements such as paving, sidewalks, and sewers. Payments made by the assessed property owners are pledged as collateral. In the event of default by a property owner, the lien created by the assessment is sold at public auction and the proceeds are used to offset the defaulted assessment. If there is no purchase at the public auction, the City is required to buy the property with funds appropriated from the General Fund.

Special assessment bonds outstanding at June 30, 2006:

Purpose	Amount
Governmental Activities	<u>\$340,000</u>

Special assessment bonds payable at June 30, 2006 consist of the following individual issues:

#### Governmental Activities

\$720,000 Improvement District Bonds, Series 1999 due in annual installments of \$43,000 to \$94,000, through January 1, 2010; interest at 4.9%.	\$ <u>340,000</u>
Total Special Assessment Bonds	\$ <u>340,000</u>

Annual debt service requirements to maturity for special assessment bonds are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2007	\$ 76,000	\$ 14,798
2008	82,000	10,877
2009	88,000	6,712
2010	94,000	2,303
Total	<u>\$ 340,000</u>	<u>\$ 34,690</u>

## Revenue Bonds

**Highway User Revenue Fund bonds** (HURF) are issued specifically for the purpose of constructing street and highway projects. These bonds are repaid out of the HURF fund by gas tax revenues collected by the State of Arizona and distributed to cities and towns based on a formula of population and gas sales within each county.

Water & Sewer Revenue bonds are issued as authorized by the voters for the construction, acquisition, furnishing, and/or equipping of water and sewer facilities and related systems. The Water & Sewer Revenue bonds are collateralized by revenue in excess of operating and maintenance expenses of the City's water & sewer utility system, and are repaid via user charges or fees for service.

Revenue bonds outstanding at June 30, 2006:

<u>Purpose</u>	<u>Amount</u>
Governmental activities	\$ 5,580,000
Governmental activities – refunding	4,085,000
Business type activities	<u>5,770,075</u>
	<u>\$15,435,075</u>

Revenue bonds at June 30, 2005 consist of the following individual issues:

### Governmental Activities:

#### Street Construction:

\$5,580,000 Junior Lien Street and Highway User Revenue Bonds, Series 1992 serial bonds due in installments of \$350,000 to \$1,725,000 through July 1, 2012; interest at 6.12%.

\$ 5,580,000

\$9,375,000 Street and Highway Revenue Refunding Bonds, Series 2003 serial bonds due in installments of \$165,000 to \$1,940,000 through July 1, 2009; interest at 2% to 3.5%

4,085,000

Total Governmental Activities

9,665,000

### Business-type Activities:

#### Water & Sewer:

\$6,775,760 Water and Wastewater Revenue Bonds, Series 2003 due in annual installments of \$238,431 to \$462,398 through July 1, 2022; interest at 3.548%.

5,770,075

Total Revenue Bonds

\$ 15,435,075

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 1,940,000	\$ 469,585	\$ 274,108	\$ 204,693
2008	1,400,000	411,385	283,832	194,969
2009	1,460,000	344,010	293,900	184,901
2010	1,520,000	280,135	304,327	174,474
2011	1,620,000	190,455	315,123	163,678
2012-2016	1,725,000	94,875	1,751,444	642,562
2017-2021	—	—	2,547,341	325,467
Total	<u>\$ 9,665,000</u>	<u>\$ 1,790,445</u>	<u>\$ 5,770,075</u>	<u>\$ 1,890,744</u>

### Other Debt

#### Municipal Facility Corporation Bonds

The Municipal Facilities Corporation (MFC) is a non-profit corporation created by the City for the purpose of constructing, acquiring and equipping municipal facilities. In fiscal year 2001 the MFC issued \$4.7 million in bonds for the construction of a new United States Geological Survey (USGS) facility on land owned by the City. In fiscal year 2004, the MFC issued \$25 million in bonds for the construction of the Fourth Street Overpass on land owned by the City. The City will make lease payments equal to the debt service on both issues and will obtain legal title upon payment in full of the bonds. The City has collateralized the contracts payable to the MFC by a pledge of the City's State Shared Revenues which comprise sales and income taxes imposed and collected by the State and distributed to counties and municipal governments pursuant to law and State revenue-sharing which the City presently or in the future receives from the State and which are not earmarked by the State for a contrary or inconsistent purpose.

Municipal facility corporation bonds outstanding at June 30, 2006:

Purpose	Amount
Governmental Activities	<u>\$25,610,000</u>

Municipal facility corporation bonds are comprised of the following issue:

\$4,700,000 USGS Project Bonds Series 12 (2001) due in annual installments of \$255,000 to \$440,000 through August 1, 2016; interest at 4% to 4.75%.	\$ 3,620,000
\$25,000,000 Fourth Street Municipal Facility Corporation Revenue Bonds, Series 2003 due in annual installments of \$1,000,000 to \$2,145,000 through July 1, 2010; interest at 2% to 5.25%.	21,990,000
Total Other Debt	<u>\$ 25,610,000</u>

Year Ending June 30	Governmental Activities	
	Principal	Interest
2007	\$ 1,295,000	\$ 1,128,799
2008	1,315,000	1,094,499
2009	1,375,000	1,031,384
2010	1,735,000	985,814
2011	1,795,000	925,071
2012-2016	10,130,000	3,472,065
2017-2020	7,965,000	1,072,049
Total	<u>\$ 25,610,000</u>	<u>\$ 9,709,681</u>

### Loans Payable

In July 1992 the City of Flagstaff entered into a loan agreement with the Wastewater Infrastructure Finance Authority of Arizona for the purpose of constructing reclaimed water lines for the new reclaimed water plant. The \$6,000,000 loan is scheduled to be paid in annual installments over twenty years with an interest rate of 3.402%. The unpaid principal of the loan at June 30, 2006 is \$2,236,830.

In September 1999 the City of Flagstaff entered into a loan agreement with Arizona Department of Transportation Aeronautics Division for the purpose of constructing a 14 unit T hangar. The \$600,000 loan is scheduled to be paid in quarterly installments over 17 years with an annual interest rate of 5.6%. The unpaid principal amount of the loan at June 30, 2006 is \$433,993.

### Obligations under Capital Leases

The City has entered into capital lease agreements for energy saving equipment and construction of Hangars at Pulliam Airport, with total assets of \$2,871,201 and \$2,832,877, respectively. These lease agreements generally require annual payments and the lease terms vary from 10 to 30 years. The lease agreements qualify as capital leases for accounting purposes and, therefore have been recorded at the present value of their future minimum lease payments as of the date of inception.

Fiscal Year Ending June 30, 2006	Governmental Activities	Business Type Activities
2007	\$ 470,993	\$ 231,736
2008	470,993	231,736
2009	470,993	231,736
2010	470,993	231,736
2011	470,993	231,736
2012-2016	1,648,475	1,158,680
2017-2021	-	1,158,680
2022-2025	-	811,076
Total future minimum lease payments	4,003,440	4,287,116
Less: imputed interest costs	(548,889)	(1,635,465)
Present value of future minimum lease payments	<u>\$ 3,454,551</u>	<u>\$ 2,651,651</u>

## Changes in long-term liabilities

Liquidation of compensated absences for governmental funds have been made out of the General, HURF, BBB, Library, and MPO funds.

Non-current liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
Bonds payable:					
General obligation bonds	\$ 4,285,000	\$ 31,500,000	\$ (2,910,000)	\$ 32,875,000	\$ 1,645,000
Special assessment bonds	415,000	–	(75,000)	340,000	76,000
Revenue bonds	11,555,000	–	(1,890,000)	9,665,000	1,940,000
Municipal facility corp bonds	26,895,000	–	(1,285,000)	25,610,000	1,295,000
Total bonds payable	43,150,000	31,500,000	(6,160,000)	68,490,000	4,956,000
Capital leases	3,800,000	–	(345,449)	3,454,551	357,221
Compensated absences	2,750,651	1,015,576	(1,056,054)	2,710,173	1,192,746
Governmental activity long-term liability	<u>\$ 49,700,651</u>	<u>\$ 32,515,576</u>	<u>\$ (7,561,503)</u>	<u>\$ 74,654,724</u>	<u>\$ 6,505,967</u>
<b>Business-type activities:</b>					
Bonds payable:					
General obligation bonds	\$ 18,880,018	–	\$ (2,585,292)	\$ 16,294,726	\$ 2,984,725
Water & sewer revenue bonds	6,034,792	–	(264,717)	5,770,075	274,108
Total bonds payable	24,914,810	–	(2,850,009)	22,064,801	3,258,833
Water & sewer loan payable	2,567,902	–	(331,072)	2,236,830	342,335
Airport loan payable	463,595	–	(29,602)	433,993	31,295
Capital leases	2,731,915	–	(80,264)	2,651,651	84,809
Compensated absences	480,247	164,698	(193,167)	451,778	203,188
Landfill closure/postclosure	2,081,006	562,288	(779,438)	1,863,856	–
Business-type activity long-term liability	<u>\$ 33,239,475</u>	<u>\$ 726,986</u>	<u>\$ (4,263,552)</u>	<u>\$ 29,702,909</u>	<u>\$ 3,920,460</u>

## V. OTHER INFORMATION

### A. Risk management

The City is exposed to various risks of loss related to torts and public officials' errors and omissions. The City purchases commercial insurance to cover these losses. However, \$50,000 of each claim resulting in a loss is retained by the City. The City provides for the self-insurance retention in the internal service fund. Outstanding claims as of June 30, 2006 have potential exposure to the City of approximately \$493,221 based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The City uses an application of historical experience to determine claims payable. However, due to the preliminary status of the claims, no determination can be made as to the likelihood, if any, of an unfavorable outcome. The net assets of the Internal Service Fund are designated for future losses related to the self-insurance retention. Settled claims have not exceeded commercial coverage in the last three fiscal years.

Fiscal Year	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Year Liability
2003-04	\$ 411,200	\$ 8,352	\$ 224,875	\$ 194,677
2004-05	194,677	69,326	33,787	230,216
2005-06	230,216	322,146	59,141	493,221

The City of Flagstaff participates in a risk sharing pool for employee health care, through the Northern Arizona Public Employees Trust, a public entity risk pool. Members do not bear any risk of loss. The overall experience rating of the trust determines premium charges.

## B. Contingent liabilities

The City is aware of existing environmental contamination at various sites and facilities. The City has annually budgeted monies for these purposes and includes remediation activities in its annual work program. The City has a compliance agreement for Americans with Disability Act with the Department of Justice (DOJ) and until all items are completed to the satisfaction of the DOJ, there remains a minimal amount of liability.

## C. Retirement and pension plans

**Plan Descriptions** – The City contributes to the four plans described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits.

The *Arizona State Retirement System* (ASRS) administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the City. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, and Article 2.

The *Public Safety Personnel Retirement System* (PSPRS) is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The *Elected Officials Retirement Plan* (EORP) is a cost-sharing multiple-employer defined benefit pension plan that covers elected officials and judges of certain state and local governments. The EORP is governed by The Fund Manager of PSPRS according to the provisions of A.S.R. Title 38, Chapter 5, and Article 3.

Each plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the applicable plan.

ASRS

3300 N. Central Ave.  
P.O. Box 33910  
Phoenix, AZ 85067-3910  
(602) 240-2200/(800) 621-3778

PSPRS and EORP

3010 E. Camelback Rd., Suite 200  
Phoenix, AZ 85016-4416  
(602) 255-5575

**Funding Policy** – The Arizona State Legislature establishes and may amend active plan members' and the City's contribution rates.

*Cost Sharing Plans* – For the year ended June 30, 2006, active ASRS members and the City were each required by statute to contribute at the actuarially determined rate of 7.40% (6.90% retirement and 0.50% long-term disability) of the members' annual covered payroll. The City's contributions to ASRS for the years ended June 30, 2006, 2005, and 2004 were \$1,765,599, \$1,239,656, and \$1,170,656 respectively, which were equal to the required contributions for the year.

In addition, active EORP members were required by statute to contribute 7.00% of the members' annual covered payroll. The City was required to contribute 20.54% of the members' annual covered payroll, as determined by actuarial valuation. The City's contributions to EORP for the years ended June 30, 2006, 2005, and 2004 were \$11,877, \$8,728 and \$3,804 respectively, which were equal to the required contributions for the year. In addition, a payment of \$4,220 was made in each year as an installment due for its unfunded accrued liability.

*Agent Plan* – For the year ended June 30, 2006, active PSPRS members were required by statute to contribute 7.65% of the members' annual covered payroll, and the City was required to contribute at the actuarially determined rate of 14.39% and 13.81% for Police and Fire respectively.

**Annual Pension Cost** – The City's pension cost for the agent plan for the year ended June 30, 2004, the date of the most recent actuarial valuation, and related information follow.

<u>Contribution rates:</u>	<u>PSPRS</u>
City – Police	14.39%
City – Fire	13.81%
Plan members	7.65%
Annual pension cost	\$ 921,120
Contributions made	\$ 921,120
Actuarial valuation date	6/30/04
Actuarial cost method	Individual entry age
Actuarial assumptions:	
Investment rate of return	8.75%
Projected salary increases	6.25% – 9.25%
Includes inflation at	5.25%
Amortization method	Level percentage open
Remaining amortization period from 7-1-00	20 years
Asset valuation method	Smoothed market value

**Trend Information** – Information for the agent plan as of most recent actuarial valuations follows.

Contributions Required and Contributions Made

Plan	Annual Pension Cost (APS)	Percentage of APC Contributed	Net Pension Obligation
PSRS 2006			
Police	\$ 740,130	100%	\$ -0-
Fire	535,828	100%	-0-
PSRS 2005			
Police	\$ 570,046	100%	\$ -0-
Fire	351,094	100%	-0-
PSRS 2004			
Police	\$ 443,928	100%	\$ -0-
Fire	192,873	100%	-0-

**Funding Progress** – An analysis of funding progress for each of the agent plans as of the most recent actuarial valuations, June 30, 2004 is what determine the note for our F/Y 2006.

	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entry Age	(3) Percent Funded (1) / (2)	(4) Unfunded AAL (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded AAL as a Percentage of Covered Payroll (4) / (5)
PSRS 2005						
Police	\$ 23,170,401	\$ 31,277,136	74.1%	\$ 8,106,735	\$ 5,143,360	157.6%
Fire	33,339,528	38,630,337	86.3%	5,290,809	3,880,002	136.4%
PSRS 2004						
Police	23,305,327	27,287,891	85.4%	3,982,564	4,839,097	82.3%
Fire	32,966,185	34,472,797	95.6%	1,506,612	3,879,272	38.8%
PSRS 2003						
Police	\$ 23,684,969	25,745,977	92.0%	2,061,008	2,061,008	100.0%
Fire	33,430,859	31,576,303	105.9%	(1,854,556)	4,086,288	-45.4%

#### VOLUNTEER FIREMEN'S RELIEF AND PENSION FUND

The Volunteer Firemen's Relief and Pension Fund ("Fund") is a single-employer defined benefit pension trust fund administered by the City. A fireman having served as a member of the City's Fire Department prior to 1978, and who is not a paid member of a fire department or a member of the Public Safety Retirement System, is eligible to receive benefits.

The fund does not issue a stand-alone report or is included in any other report than the City's.

A fireman who has served for 25 years or more, or who has reached sixty years of age, and served twenty years or more, shall be paid a monthly pension not to exceed \$250 per month based on the benefits available to members of the fire department as determined by the board of trustees. Such pension may be increased or decreased in amount, or discontinued at the discretion of the Fund's board of trustees. The Fund's funding provisions and all other requirements are established by state statute.

At June 30, 2006, the number of firemen covered by the Fund was classified as follows:

Retirees and beneficiaries currently receiving benefits	3
Active employees:	
Non-vested	<u>3</u>
Total covered firemen	<u>6</u>

#### **Funding Status and Progress:**

Per state statute there is no requirement that an actuarial valuation be performed to determine that the Volunteer Firemen's Relief and Pension Fund is fully funded. If the funds provided in the Fund are insufficient to pay fully the pensions authorized pursuant to the statute, the fund shall be prorated among those entitled thereto.

#### **Contributions:**

State statute requires a 5% contribution of annual compensation each from the City and the employee. Because no compensation was paid by the City to volunteer firemen, no contribution was made during the current fiscal year. No member or City contributions have been made to this fund since fiscal year ended June 30, 1979.

#### **Trend Information:**

Trend information for ten years is presented below:

Fiscal Year June 30	Net Assets Available (not cash) for Benefits	Revenues				Expenses
		Employee Contributions	Employer Contributions	Investment Income	Other Income	Benefit Payments
1997	213,721	-	-	11,922	201	9,600
1998	216,843	-	-	12,332	390	9,600
1999	218,401	-	-	11,068	89	9,600
2000	221,678	-	-	12,877	-	9,600
2001	226,593	-	-	13,620	96	8,800
2002	226,632	-	-	7,125	114	7,200
2003	221,730	-	-	2,176	122	7,200
2004	219,214	-	-	4,367	317	7,200
2005	217,606	-	-	5,296	296	7,200
2006	217,237	-	-	6,650	181	7,200

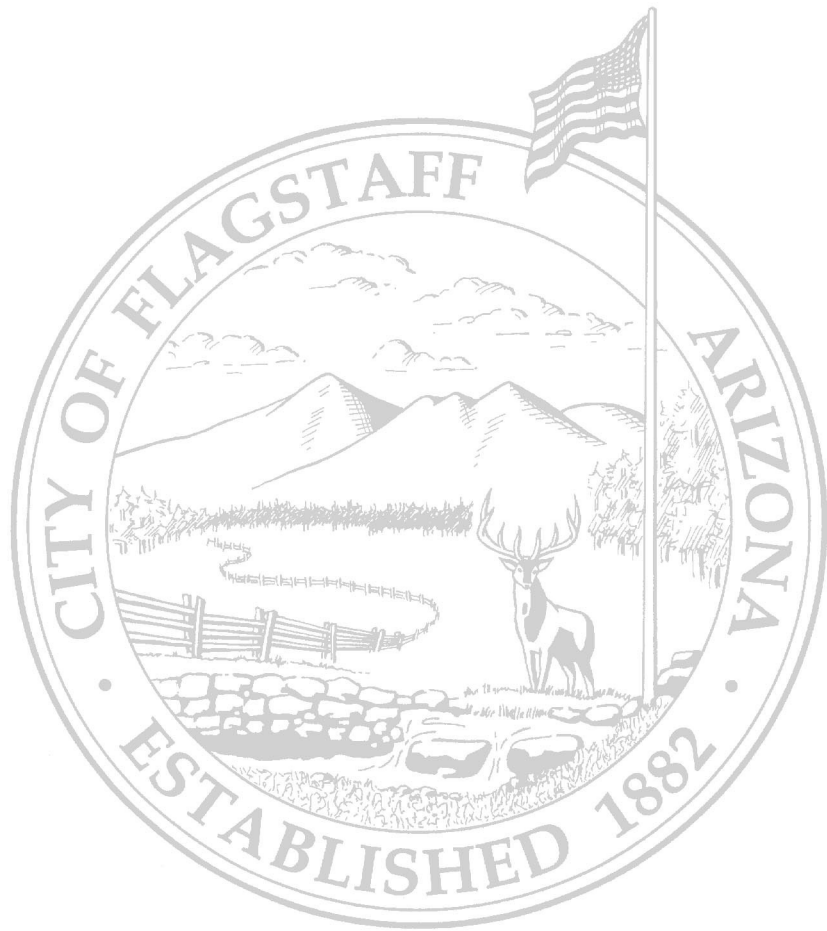
#### **D. Landfill closure and postclosure care cost**

State and federal laws and regulations require the City to place a final cover on its Cinderlake landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The City reports a portion of these closures and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The estimated liability for landfill closure and postclosure care costs has a balance of \$8,170,663 as of June 30, 2006, which is based on 56 percent usage of the landfill. The remaining \$6,339,174 will be accrued over the remaining life of the landfill, which is currently estimated to be 15 years. The accrual for these closure and postclosure care costs for fiscal year 2006 was \$562,288. Based on current estimates for landfill closure and postclosure care costs, the City is setting aside legally restricted funds to insure sufficient funds will be available to meet these requirements. The City makes annual contributions to finance closure and postclosure care costs; at June 30, 2006 the balance of the investments held for those purposes is \$6,306,807, which includes \$45,744 of accrued interest. The investments are reported as restricted cash and investments in the City's Environmental Service Fund, and are held by the State of Arizona Local Government Investment Pool.

The estimated total current cost of the landfill closure and postclosure care, \$14,509,837, is based on the amount that would be paid if all equipment, facilities, and services required to care, monitor and maintain the landfill were acquired as of June 30, 2006. However, the actual cost of closure and postclosure care may be higher or lower due to other factors such as; inflation, changes in technology, or changes in landfill laws and regulations.

According to state and federal laws and regulations, the City must comply with the local government financial test requirements that assure the City can meet the cost of landfill closure, post-closure and corrective action when needed. The City, which has pledged its full faith and credit to meet state financial responsibility requirements, is in compliance with these requirements.

In March of 1999, the City purchased 343.9 acres of land from the Forest Service. This land is adjacent to the existing landfill and will be used to open additional cells as needed. As these cells are utilized, additional liabilities for closure and postclosure care requirements will be accrued. The City applied existing policy to the Environmental Services Fund increasing its' expenditures as City residential and commercial collection programs are now charged for landfill fees.



## **NON-MAJOR FUNDS OTHER GOVERNMENTAL FUNDS**

### **Special Revenue Funds**

Special Revenue Funds are used to account for revenues derived from specific taxes or other earmarked revenue sources. They are usually required by statute, charter provision or ordinance to finance particular functions or activities.

#### **Library Fund**

The City Library is financed through City sales tax allocations, State and County grants and individual contributions. Funds provided must be used for library activities such as cultural and educational programs and technical services.

#### **Real Estate Proceeds Fund**

This fund was established by the City Council by resolution in fiscal year 1985–86 to account for the proceeds received from the sale of excess real estate.

#### **Community Redevelopment**

This fund was established in fiscal year 1997 to account for the funding received for the Community Development Block Grant program and affordable housing activities.

#### **Metropolitan Planning Organization**

This fund was established in fiscal year 1997 to account for funding derived from the City's status as a Metropolitan Planning Organization.

### **Debt Service Funds**

Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

#### **Special Assessment Bond Fund**

This fund accounts for the accumulation of resources for and the payment of principal, interest and related costs for all improvement district bonds issued by the City.

#### **Secondary Property Tax Revenue Fund**

This fund is used to account for secondary property tax revenues. Monies received by this fund are legally restricted to payment of general obligation debt.

### **Permanent Fund**

Permanent funds are used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs.

#### **Perpetual Care**

This fund accounts for the perpetual care of the City's cemetery.

**CITY OF FLAGSTAFF, ARIZONA**  
**Combining Balance Sheet**  
**Non-Major Governmental Funds**  
**June 30, 2006**

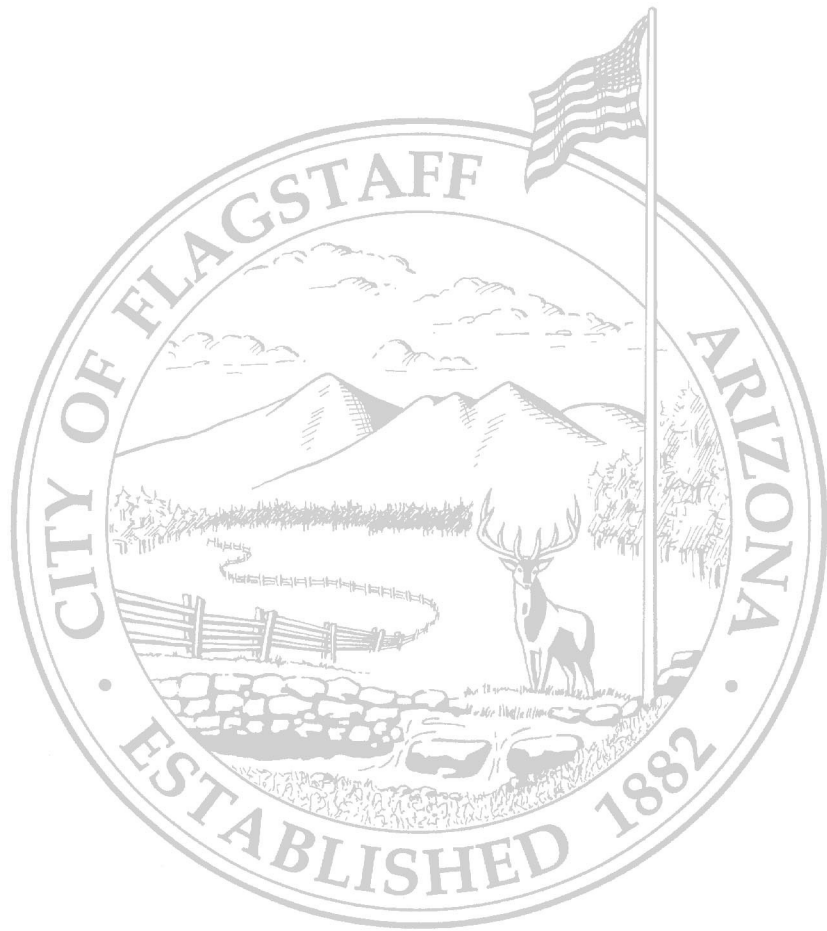
	Special Revenue Funds			
	Library Fund	Real Estate Proceeds Fund	Community Redevelopment Fund	Metropolitan Planning Organization Fund
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,948,918	\$ 2,685,889	\$ 2,188,739	\$ 927
Cash with fiscal agents	-	-	-	-
Accounts receivable, net	68,477	863	228	-
Interest receivable	10,036	17,638	13,024	-
Intergovernmental receivables	-	-	96,444	355,390
Special assessments receivable	-	-	-	-
Restricted cash and cash equivalents	-	-	-	-
Total assets	<u>\$ 2,027,431</u>	<u>\$ 2,704,390</u>	<u>\$ 2,298,435</u>	<u>\$ 356,317</u>
<b>LIABILITIES AND FUND BALANCE</b>				
Liabilities:				
Accounts payable	\$ 14,919	\$ -	\$ 173,354	\$ 2,842
Accrued payroll and compensated absences	60,068	-	-	6,015
Interest payable	-	-	-	-
Interfund payable	-	-	-	335,000
Unearned revenue	-	-	-	-
Liabilities payable from restricted assets	1,368,268	-	-	-
Total liabilities	<u>1,443,255</u>	<u>-</u>	<u>173,354</u>	<u>343,857</u>
Fund balances:				
Reserved for:				
Debt service	-	-	-	-
Perpetual care	-	-	-	-
Unreserved, undesignated, reported in:				
Special revenue funds	584,176	2,704,390	2,125,081	12,460
Permanent fund	-	-	-	-
Total fund balances	<u>584,176</u>	<u>2,704,390</u>	<u>2,125,081</u>	<u>12,460</u>
Total liabilities and fund balances	<u>\$ 2,027,431</u>	<u>\$ 2,704,390</u>	<u>\$ 2,298,435</u>	<u>\$ 356,317</u>

Debt Service Funds		Permanent Fund	
Special Assessment Bond Fund	Secondary Property Tax Revenue Fund	Perpetual Care	Total Other Governmental Funds
\$ 434,498	\$ 1,170,282	\$ 2,595	\$ 8,431,848
7,105	-	-	7,105
-	-	230	69,798
3,049	21,804	446	65,997
-	-	-	451,834
3,934	-	-	3,934
-	-	69,502	69,502
<u>\$ 448,586</u>	<u>\$ 1,192,086</u>	<u>\$ 72,773</u>	<u>\$ 9,100,018</u>
\$ 1,063	\$ -	\$ -	\$ 192,178
-	-	-	66,083
8,605	-	-	8,605
-	-	-	335,000
3,934	-	-	3,934
-	-	-	1,368,268
<u>13,602</u>	<u>-</u>	<u>-</u>	<u>1,974,068</u>
434,984	1,192,086	-	1,627,070
-	-	69,502	69,502
-	-	-	5,426,107
-	-	3,271	3,271
<u>434,984</u>	<u>1,192,086</u>	<u>72,773</u>	<u>7,125,950</u>
<u>\$ 448,586</u>	<u>\$ 1,192,086</u>	<u>\$ 72,773</u>	<u>\$ 9,100,018</u>

**CITY OF FLAGSTAFF, ARIZONA**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Non-Major Governmental Funds**  
**Year Ended June 30, 2006**

	Special Revenue Funds			
	Library Fund	Real Estate Proceeds Fund	Community Redevelopment Fund	Metropolitan Planning Organization Fund
<b>REVENUES:</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	2,040,924	-	748,437	-
Grants and entitlements	28,808	-	-	355,389
Charges for services	-	-	261,044	-
Special assessments	-	-	-	-
Investment earnings	44,261	89,473	64,645	-
Contributions	85,000	-	-	-
Miscellaneous	33,468	-	-	-
Total revenues	<u>2,232,461</u>	<u>89,473</u>	<u>1,074,126</u>	<u>355,389</u>
<b>EXPENDITURES:</b>				
Current:				
Economic and physical development	-	6,007	1,349,594	367,929
Culture and recreation	3,430,796	-	-	-
Debt service:				
Principal retirement	-	-	-	-
Interest and other charges	-	-	-	-
Capital outlay	-	-	139,808	-
Total expenditures	<u>3,430,796</u>	<u>6,007</u>	<u>1,489,402</u>	<u>367,929</u>
Excess (deficiency) of revenues over expenditures	<u>(1,198,335)</u>	<u>83,466</u>	<u>(415,276)</u>	<u>(12,540)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of capital assets	21	-	-	-
Transfers in	1,204,310	150,000	375,400	25,000
Transfers out	(78,391)	-	-	-
Total other financing sources (uses)	<u>1,125,940</u>	<u>150,000</u>	<u>375,400</u>	<u>25,000</u>
Net change in fund balances	<u>(72,395)</u>	<u>233,466</u>	<u>(39,876)</u>	<u>12,460</u>
Fund balances, beginning of year, as restated	<u>656,571</u>	<u>2,470,924</u>	<u>2,164,957</u>	<u>-</u>
Fund balances, end of year	<u>\$ 584,176</u>	<u>\$ 2,704,390</u>	<u>\$ 2,125,081</u>	<u>\$ 12,460</u>

Debt Service Funds		Permanent Fund	
Special Assessment Bond Fund	Secondary Property Tax Revenue Fund	Perpetual Care	Total Other Governmental Funds
\$ -	\$ 4,881,323	\$ -	\$ 4,881,323
-	-	-	2,789,361
-	-	-	384,197
-	-	-	261,044
30,016	-	-	30,016
18,643	80,700	1,845	299,567
-	-	24,630	109,630
158	-	-	33,626
<u>48,817</u>	<u>4,962,023</u>	<u>26,475</u>	<u>8,788,764</u>
-	-	-	1,723,530
-	-	-	3,430,796
75,001	-	-	75,001
19,145	-	-	19,145
-	-	-	139,808
<u>94,146</u>	<u>-</u>	<u>-</u>	<u>5,388,280</u>
<u>(45,329)</u>	<u>4,962,023</u>	<u>26,475</u>	<u>3,400,484</u>
-	-	-	21
-	-	-	1,754,710
-	(5,735,516)	-	(5,813,907)
-	(5,735,516)	-	(4,059,176)
<u>(45,329)</u>	<u>(773,493)</u>	<u>26,475</u>	<u>(658,692)</u>
<u>480,313</u>	<u>1,965,579</u>	<u>46,298</u>	<u>7,784,642</u>
<u>\$ 434,984</u>	<u>\$ 1,192,086</u>	<u>\$ 72,773</u>	<u>\$ 7,125,950</u>



## Other Supplementary Information

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City of Flagstaff, Arizona  
Capital Assets Used in the Operation of Governmental Funds  
Schedule By Function and Activity  
June 30, 2006

Program	Land	Buildings	Improvements
General government	\$ 3,283,582	\$ 13,502,132	\$ 1,495,798
Public safety	265,259	12,075,075	61,303
Public works	-	5,924,036	192,887
Economic and physical development	1,432,726	2,790,900	24,309
Culture and recreation	3,471,256	2,631,168	13,595,429
Highway and streets	718,475	102,310	2,019,887
Subtotal	9,171,298	37,025,621	17,389,613
Less: accumulated depreciation	-	(11,612,778)	(7,698,850)
Total governmental funds capital assets	<u>\$ 9,171,298</u>	<u>\$ 25,412,843</u>	<u>\$ 9,690,763</u>

Machinery and Equipment	Infrastructure	Construction In Progress	Total
\$ 3,457,610	\$ -	\$ 141,800	\$ 21,880,922
8,227,476	-	3,284,318	23,913,431
1,042,694	-	-	7,159,617
994,138	-	51,826	5,293,899
3,403,380	2,511,133	2,285,592	27,897,958
6,625,932	36,934,352	40,952,812	87,353,768
23,751,230	39,445,485	46,716,348	173,499,595
(14,972,610)	(1,968,926)	-	(36,253,164)
<u>\$ 8,778,620</u>	<u>\$ 37,476,559</u>	<u>\$ 46,716,348</u>	<u>137,246,431</u>

City of Flagstaff, Arizona  
Capital Assets Used in the Operation of Governmental Funds  
Schedule of Changes By Function and Activity  
June 30, 2006

Program	Balance July 1, 2005	Additions	Retirements	Transfers In (out)	Balance June 30, 2006
General government	\$ 19,815,290	\$ 2,095,877	\$ (30,245)	-	\$ 21,880,922
Public safety	20,582,413	3,464,708	(133,690)	-	23,913,431
Public works	7,121,260	64,424	(26,067)	-	7,159,617
Economic and physical development	4,976,098	326,449	(8,648)	-	5,293,899
Culture and recreation	22,548,611	5,372,243	(8,456)	(14,440)	27,897,958
Highway and streets	61,679,755	25,715,731	(56,158)	14,440	87,353,768
Total	<u>136,723,427</u>	<u>37,039,432</u>	<u>(263,264)</u>	<u>-</u>	<u>173,499,595</u>

**CITY OF FLAGSTAFF, ARIZONA**  
**Capital Projects Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Year Ended June 30, 2006**

	Budget			
	Original	Final	Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
Investment earnings	\$ -	\$ -	\$ 244,824	\$ 244,824
Total revenues	-	-	244,824	244,824
<b>EXPENDITURES:</b>				
Current:				
Economic and physical development	-	-	11,073	(11,073)
Principal retirement	-	-	220,086	(220,086)
Interest and other charges	-	-	226	(226)
Capital outlay	10,692,520	10,692,520	2,437,703	8,254,817
Total expenditures	10,692,520	10,692,520	2,669,088	8,023,432
Excess (deficiency) of revenues over expenditures	(10,692,520)	(10,692,520)	(2,424,264)	8,268,256
<b>OTHER FINANCING SOURCES (USES):</b>				
Bonds issued	31,505,477	31,505,477	31,500,000	(5,477)
Bond premium	-	-	-	-
Total other financing sources (uses)	31,505,477	31,505,477	31,500,000	(5,477)
Net change in fund balances	20,812,957	20,812,957	29,075,736	8,262,779
Budgetary fund balances, beginning of year	(972,439)	(972,439)	(972,439)	-
Budgetary fund balances, end of year	\$ 19,840,518	\$ 19,840,518	\$ 28,103,297	\$ 8,262,779
Adjustment from budetary basis to GAAP basis net change in fund balances			\$ 29,075,736	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			220,086	
The City budgets for certain other expenditures on the cash basis, rather than on the modified accrual basis			(264,666)	
Adjusted net change in fund balance – GAAP basis			\$ 29,031,156	

**CITY OF FLAGSTAFF, ARIZONA**  
**General Obligation Bond Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Year Ended June 30, 2006**

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
<b>REVENUES:</b>				
Investment earnings	\$ 300	\$ 300	\$ –	\$ (300)
Total revenues	300	300	–	(300)
<b>EXPENDITURES:</b>				
Current:				
Debt service:				
Principal retirement	3,132,321	3,132,321	2,689,914	442,407
Interest and other charges	319,440	319,440	446,997	(127,557)
Total expenditures	3,451,761	3,451,761	3,136,911	314,850
Excess (deficiency) of revenues over expenditures	(3,451,461)	(3,451,461)	(3,136,911)	314,550
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	3,451,761	3,451,761	3,451,375	(386)
Total other financing sources (uses)	3,451,761	3,451,761	3,451,375	(386)
Net change in fund balances	300	300	314,464	314,164
Budgetary fund balances, beginning of year	12,524	12,524	12,524	–
Budgetary fund balances, end of year	\$ 12,824	\$ 12,824	\$ 326,988	\$ 314,164

**CITY OF FLAGSTAFF, ARIZONA**  
**Library Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Year Ended June 30, 2006**

	Budget			
	Original	Final	Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
<b>REVENUES:</b>				
Intergovernmental	\$ 2,993,396	\$ 2,993,396	\$ 2,040,924	\$ (952,472)
Grants and entitlements	25,000	25,000	28,808	3,808
Investment earnings	21,000	21,000	44,261	23,261
Contributions	325,000	325,000	85,000	(240,000)
Miscellaneous	29,000	29,000	33,468	4,468
Total revenues	<u>3,393,396</u>	<u>3,393,396</u>	<u>2,232,461</u>	<u>(1,160,935)</u>
<b>EXPENDITURES:</b>				
Current:				
Culture and recreation	4,239,339	4,239,339	3,430,796	808,543
Capital outlay	325,000	325,000	-	325,000
Contingency	100,000	100,000	-	100,000
Total expenditures	<u>4,664,339</u>	<u>4,664,339</u>	<u>3,430,796</u>	<u>1,233,543</u>
Excess (deficiency) of revenues over expenditures	<u>(1,270,943)</u>	<u>(1,270,943)</u>	<u>(1,198,335)</u>	<u>72,608</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of capital assets	-	-	21	21
Transfers in	1,204,310	1,204,310	1,204,310	-
Transfers out	(328,391)	(328,391)	(78,391)	250,000
Total other financing sources (uses)	<u>875,919</u>	<u>875,919</u>	<u>1,125,940</u>	<u>250,021</u>
Net change in fund balances	<u>(395,024)</u>	<u>(395,024)</u>	<u>(72,395)</u>	<u>322,629</u>
Budgetary fund balances, beginning of year	<u>853,588</u>	<u>853,588</u>	<u>853,588</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 458,564</u>	<u>\$ 458,564</u>	<u>\$ 781,193</u>	<u>\$ 322,629</u>

**CITY OF FLAGSTAFF, ARIZONA**  
**Real Estate Proceeds Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Year Ended June 30, 2006**

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
<b>REVENUES:</b>				
Investment earnings	\$ 47,350	\$ 47,350	\$ 89,473	\$ 42,123
Total revenues	47,350	47,350	89,473	42,123
<b>EXPENDITURES:</b>				
Capital outlay	2,501,900	2,501,900	6,007	2,495,893
Total expenditures	2,501,900	2,501,900	6,007	2,495,893
Excess (deficiency) of revenues over expenditures	(2,454,550)	(2,454,550)	83,466	2,538,016
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	150,000	150,000	150,000	-
Total other financing sources (uses)	150,000	150,000	150,000	-
Net change in fund balances	(2,304,550)	(2,304,550)	233,466	2,538,016
Budgetary fund balances, beginning of year	2,458,157	2,458,157	2,458,157	-
Budgetary fund balances, end of year	\$ 153,607	\$ 153,607	\$ 2,691,623	\$ 2,538,016

**CITY OF FLAGSTAFF, ARIZONA**  
**Community Redevelopment Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Year Ended June 30, 2006**

	Budget			
	Original	Final	Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
<b>REVENUES:</b>				
Intergovernmental	\$ 2,313,648	\$ 2,313,648	\$ 748,437	\$ (1,565,211)
Charges for services	–	–	261,044	261,044
Investment earnings	–	–	64,645	64,645
Total revenues	<u>2,313,648</u>	<u>2,313,648</u>	<u>1,074,126</u>	<u>(1,239,522)</u>
<b>EXPENDITURES:</b>				
Current:				
Economic and physical development	4,806,625	4,806,625	1,349,594	3,457,031
Capital outlay	–	–	139,808	(139,808)
Total expenditures	<u>4,806,625</u>	<u>4,806,625</u>	<u>1,489,402</u>	<u>3,317,223</u>
Excess (deficiency) of revenues over expenditures	<u>(2,492,977)</u>	<u>(2,492,977)</u>	<u>(415,276)</u>	<u>2,077,701</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	<u>375,400</u>	<u>375,400</u>	<u>375,400</u>	<u>–</u>
Total other financing sources (uses)	<u>375,400</u>	<u>375,400</u>	<u>375,400</u>	<u>–</u>
Net change in fund balances	<u>(2,117,577)</u>	<u>(2,117,577)</u>	<u>(39,876)</u>	<u>2,077,701</u>
Budgetary fund balances, beginning of year	<u>2,235,600</u>	<u>2,235,600</u>	<u>2,235,600</u>	<u>–</u>
Budgetary fund balances, end of year	<u>\$ 118,023</u>	<u>\$ 118,023</u>	<u>\$ 2,195,724</u>	<u>\$ 2,077,701</u>

**CITY OF FLAGSTAFF, ARIZONA**  
**Metropolitan Planning Organization Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Year Ended June 30, 2006**

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
<b>REVENUES:</b>				
Grants and entitlements	\$ 634,666	\$ 634,666	\$ 355,389	\$ (279,277)
Total revenues	634,666	634,666	355,389	(279,277)
<b>EXPENDITURES:</b>				
Current:				
Economic and physical development	559,666	559,666	367,929	191,737
Contingency	100,000	100,000	-	100,000
Total expenditures	659,666	659,666	367,929	291,737
Excess (deficiency) of revenues over expenditures	(25,000)	(25,000)	(12,540)	12,460
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	25,000	25,000	25,000	-
Total other financing sources (uses)	25,000	25,000	25,000	-
Net change in fund balances	-	-	12,460	12,460
Budgetary fund balances, beginning of year	-	-	-	-
Budgetary fund balances, end of year	\$ -	\$ -	\$ 12,460	\$ 12,460

**CITY OF FLAGSTAFF, ARIZONA**  
**Special Assessment Bond Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Year Ended June 30, 2006**

	<u>Budget</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts Budgetary Basis</u>	
<b>REVENUES:</b>				
Special assessments	\$ 29,118	\$ 29,118	\$ 30,016	\$ 898
Investment earnings	18,880	18,880	18,643	(237)
Miscellaneous	–	–	158	158
Total revenues	<u>47,998</u>	<u>47,998</u>	<u>48,817</u>	<u>819</u>
<b>EXPENDITURES:</b>				
Current:				
Debt service:				
Principal retirement	75,000	75,000	75,001	(1)
Interest and other charges	<u>19,545</u>	<u>19,545</u>	<u>19,145</u>	<u>400</u>
Total expenditures	<u>94,545</u>	<u>94,545</u>	<u>94,146</u>	<u>399</u>
Excess (deficiency) of revenues over expenditures	<u>(46,547)</u>	<u>(46,547)</u>	<u>(45,329)</u>	<u>1,218</u>
 Budgetary fund balances, beginning of year	<u>469,960</u>	<u>469,960</u>	<u>469,960</u>	<u>–</u>
 Budgetary fund balances, end of year	<u>\$ 423,413</u>	<u>\$ 423,413</u>	<u>\$ 424,631</u>	<u>\$ 1,218</u>

**CITY OF FLAGSTAFF, ARIZONA**  
**Secondary Property Tax Revenue Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Year Ended June 30, 2006**

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
<b>REVENUES:</b>				
Taxes	\$ 4,879,862	\$ 4,879,862	\$ 4,881,323	\$ 1,461
Investment earnings	38,800	38,800	80,700	41,900
Total revenues	<u>4,918,662</u>	<u>4,918,662</u>	<u>4,962,023</u>	<u>43,361</u>
 <b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	(5,751,422)	(5,751,422)	(5,735,516)	15,906
Total other financing sources (uses)	<u>(5,751,422)</u>	<u>(5,751,422)</u>	<u>(5,735,516)</u>	<u>15,906</u>
 Net change in fund balances	<u>(832,760)</u>	<u>(832,760)</u>	<u>(773,493)</u>	<u>59,267</u>
 Budgetary fund balances, beginning of year	<u>1,963,400</u>	<u>1,963,400</u>	<u>1,963,400</u>	<u>–</u>
 Budgetary fund balances, end of year	<u><u>\$ 1,130,640</u></u>	<u><u>\$ 1,130,640</u></u>	<u><u>\$ 1,189,907</u></u>	<u><u>\$ 59,267</u></u>

## Statistical Section

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## Schedule 1

## City of Flagstaff

## Net Assets by Component

## Last Four Fiscal Years

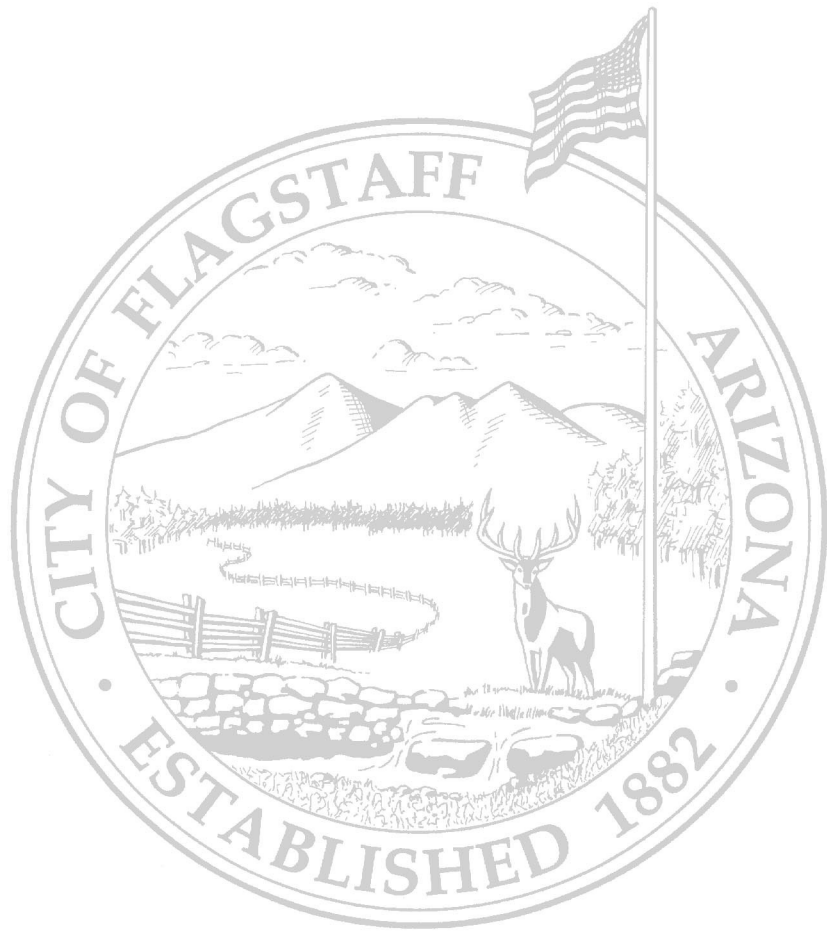
*(accrual basis of accounting)*

	Fiscal Year			
	2003	2004	2005	2006
<b>Governmental activities</b>				
Invested in capital assets, net of related debt	\$ 45,410,334	\$ 41,666,412	\$ 46,759,889	\$ 93,515,204 (1)
Restricted	14,778,358	35,343,236	20,670,257	45,560,390 (2)
Unrestricted	34,178,175	33,494,972	56,392,865	11,027,145 (3)
Total governmental activities net assets	\$ 94,366,867	\$ 110,504,620	\$ 123,823,011	\$ 150,102,739
<b>Business-type activities</b>				
Invested in capital assets, net of related debt	\$ 173,369,441	\$ 184,863,812	\$ 200,551,217	\$ 230,035,130
Restricted	5,013,627	5,161,363	3,200,521	2,392,858
Unrestricted	20,858,057	24,092,049	24,948,848	20,303,463
Total business-type activities and net assets	\$ 199,241,125	\$ 214,117,224	\$ 228,700,586	\$ 252,731,451
<b>Primary government</b>				
Invested in capital assets, net of related debt	\$ 218,779,775	\$ 226,530,224	\$ 247,311,106	\$ 323,550,334
Restricted	19,791,985	40,504,599	23,870,778	47,953,248
Unrestricted	55,036,232	57,587,021	81,341,713	31,330,608
Total primary government net assets	\$ 293,607,992	\$ 324,621,844	\$ 352,523,597	\$ 402,834,190

(1) The increase from the prior period was caused by a substantial increase in capital projects, completed and in process.

(2) The increase from the prior period was caused by a substantial increase in unspent bond proceeds.

(3) The decrease from the prior period was caused by a substantial increase in capital asset contributions.



Schedule 2

City of Flagstaff  
Changes in Net Assets  
Last Four Fiscal Years  
(accrual basis of accounting)

	Fiscal Year			
	2003	2004	2005	2006
<b>Expenses</b>				
Governmental activities:				
General government	\$	\$	\$	\$
Public safety	4,840,896	5,891,617	5,441,945	7,458,583
Public works	18,270,468	18,792,832	21,018,114	22,525,292
Economic and physical development	1,169,302	1,178,137	1,320,459	1,454,731
Culture and recreation	7,272,115	6,473,290	6,807,311	7,842,985
Highways and streets	8,467,575	8,693,714	9,426,600	8,328,945
Interest on long-term debt	6,184,553	8,886,947	10,011,231	12,043,242
Total governmental activities expense	1,380,182	1,923,325	2,042,555	2,167,626
	47,585,091	51,839,862	56,068,215	61,821,404
Business-type activities:				
Water and wastewater	16,142,040	17,250,441	17,297,017	18,452,368
Environmental	7,556,614	7,319,602	8,548,715	9,096,420
Airport	3,411,603	3,370,447	3,749,669	3,519,749
Stormwater	-	460,936	479,700	791,791
Total business-type activities expense	27,110,257	28,401,426	30,075,101	31,860,328
Total primary government expense	\$ 74,695,348	\$ 80,241,288	\$ 86,143,316	\$ 93,681,732
<b>Program Revenues</b>				
Governmental activities:				
Charges for services:	\$	\$	\$	\$
General government	4,757,483	3,257,393	3,611,862	4,886,354
Public safety	743,738	451,802	498,506	815,167
Public works	830,885	976,793	1,213,714	1,180,097
Economic and physical development	222,008	16,164	321,915	332,356
Culture and recreation	733,159	722,236	680,755	683,906
Highways and streets	119,854	-	-	-
Operating grants and contributions	3,428,440	2,678,653	4,147,529	3,791,526
Capital grants and contributions	9,646,122	11,757,330	15,180,401	21,566,549
Total governmental activities program revenues	20,481,689	19,860,371	25,654,682	33,255,955

Schedule 2 (continued)

City of Flagstaff

Changes in Net Assets

Last Four Fiscal Years

(accrual basis of accounting)

Business-type activities:

Charges for services:

Water and wastewater

Environmental

Airport

Stormwater

Operating grants and contributions

Capital grants and contributions

Total business-type activities program revenues

Total primary government program revenues

16,534,341	16,678,956	16,223,648	17,047,831
7,682,458	8,201,566	9,370,561	9,723,652
926,406	944,983	1,176,866	1,261,594
–	546,807	694,161	630,962
382,239	286,919	574,376	369
9,460,796	10,482,991	8,164,775	23,449,969
34,986,240	37,142,222	36,204,387	52,114,377
\$ 55,467,929	\$ 57,002,593	\$ 61,859,069	\$ 85,370,332

Net (Expense)/Revenue

Governmental activities

Business-type activities

Total primary government net expense

\$ (27,103,402)	\$ (31,979,491)	\$ (30,413,533)	\$ (28,565,449)
7,875,983	8,740,796	6,129,286	20,254,049
\$ (19,227,419)	\$ (23,238,695)	\$ (24,284,247)	\$ (8,311,400)

General Revenues and Other Changes in Net Assets

Governmental activities:

Taxes

Property taxes

Sales taxes

State shared sales taxes

Grants and contributions not restricted to specific programs

Investment earnings

Miscellaneous

Gain on sale of capital assets

Contributions to permanent fund

Transfers in (out)

Total governmental activities

\$ 8,010,293	\$ 7,931,626	\$ 8,462,302	\$ 9,051,158
23,805,566	25,682,974	27,054,164	30,014,975
12,073,108	12,122,563	12,837,838	14,384,055
–	810,739	–	377,502
383,111	218,520	1,703,861	2,385,099
492	905,717	277,972	204,678
944,381	634,411	382,387	33,417
7,435	14,717	17,765	24,630
(476,304)	(369,358)	(7,004,365)	(2,267,551)
44,748,082	47,951,909	43,731,924	54,207,963

Business-type activities:

Grants and contributions not restricted to specific programs

Investment earnings

Gain on sale of capital assets

Transfers in (out)

Total business-type activities

106,733	719,023	–	889
23,675	17,302	935,973	1,181,836
476,304	369,358	513,738	326,540
606,712	1,105,683	7,004,365	2,267,551
		8,454,076	3,776,816

Total primary government

\$ 45,354,794	\$ 49,057,592	\$ 52,186,000	\$ 57,984,779
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Change in Net Assets

Governmental activities

Business-type activities

Total primary government

\$ 17,644,680	\$ 15,972,418	\$ 13,318,391	\$ 25,642,514
8,482,695	9,846,479	14,583,362	24,030,865
\$ 26,127,375	\$ 25,818,897	\$ 27,901,753	\$ 49,673,379

Schedule 3  
City of Flagstaff  
Fund Balances, Governmental Funds  
Last Ten Fiscal Years  
(modified accrual basis of accounting)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>General Fund</b>										
Reserved	\$ 124,702	\$ 131,542	\$ 133,533	\$ 186,768	\$ 212,379	\$ 174,932	\$ 176,838	\$ 220,779	\$ 200,401	\$ 232,190
Unreserved	9,413,702	8,120,997	13,454,402	17,366,998	19,208,574	18,318,999	21,782,895	22,891,253	29,124,795	29,153,850
Total general fund	<u>\$ 9,538,404</u>	<u>\$ 8,252,539</u>	<u>\$ 13,587,935</u>	<u>\$ 17,553,766</u>	<u>\$ 19,420,953</u>	<u>\$ 18,493,931</u>	<u>\$ 21,959,733</u>	<u>\$ 23,112,032</u>	<u>\$ 29,325,196</u>	<u>\$ 29,386,040</u>
<b>All Other Governmental Funds</b>										
Reserved	\$ 5,946,199	\$ 5,630,346	\$ 3,963,668	\$ 1,780,611	\$ 5,260,436	\$ 1,106,960	\$ 959,209	\$ 1,677,627	\$ 1,556,450	\$ 30,107,878
Unreserved, reported in:										
Special revenue funds	13,777,410	15,733,412	16,107,637	17,263,742	24,317,465	26,476,529	21,713,198	37,476,678	33,041,256	22,893,640
Debt service funds	-	-	-	-	-	-	-	-	-	-
Capital project funds	-	-	-	-	-	-	-	-	-	-
Permanent fund	-	-	-	-	-	-	217	567	1,426	3,271
Total all other governmental funds	<u>\$ 19,723,609</u>	<u>\$ 21,363,758</u>	<u>\$ 20,071,305</u>	<u>\$ 19,044,353</u>	<u>\$ 29,577,901</u>	<u>\$ 27,583,489</u>	<u>\$ 22,672,624</u>	<u>\$ 39,154,872</u>	<u>\$ 34,599,132</u>	<u>\$ 53,004,789</u>

## Schedule 4

## City of Flagstaff

## Changes in Fund Balances, Governmental Funds

## Last Ten Fiscal Years

(modified accrual basis of accounting)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>REVENUES:</b>										
Taxes	\$ 18,776,929	\$ 19,576,193	\$ 20,582,542	\$ 22,197,133	\$ 28,340,957	\$ 30,986,091	\$ 31,523,875	\$ 33,736,154	\$ 35,529,373	\$ 39,104,903
Intergovernmental	17,704,496	19,079,704	22,621,143	26,778,117	26,203,650	24,008,885	11,746,308	12,156,451	17,545,686	17,173,416
Grants and entitlements	-	-	-	-	-	-	13,074,562	10,940,934	9,564,110	10,880,792
Charges for services	871,284	920,566	837,373	1,030,249	1,025,625	1,676,615	1,729,275	1,459,837	1,834,067	2,199,819
Special assessments	132,847	170,026	157,640	175,863	269,794	350,894	360,158	291,684	218,500	30,016
Licenses and permits	1,279,410	1,246,090	1,335,184	1,324,340	1,318,450	2,014,357	2,378,728	2,111,033	2,063,718	2,834,506
Fines and forfeitures	782,451	783,854	838,306	837,695	993,585	991,131	1,303,069	1,144,562	1,250,494	1,394,174
Rents	-	-	-	-	-	-	845,443	985,907	1,220,007	1,195,464
Investment earnings	-	-	-	-	-	-	274,472	115,433	1,589,293	2,238,285
Contributions	-	-	-	720,000	-	-	334,235	21,917	22,229	129,930
Miscellaneous	2,200,448	2,327,133	2,310,761	4,347,916	3,300,386	3,169,599	781,496	905,717	277,972	204,678
Total revenues	41,747,865	44,103,566	48,682,949	57,411,313	61,452,447	63,197,572	64,351,621	63,869,629	71,115,449	77,385,983
<b>EXPENDITURES:</b>										
General governmental	2,958,052	3,364,864	4,246,127	3,755,883	4,533,882	5,834,543	4,453,180	5,335,890	6,158,308	6,621,976
Public safety	12,001,887	12,167,725	13,299,094	13,533,876	15,480,047	16,057,019	17,202,980	18,015,837	19,140,415	21,626,547
Public works	782,335	794,953	752,777	727,764	1,066,174	950,242	948,944	966,546	1,005,745	1,168,424
Economic and physical development	4,739,143	4,944,639	6,632,815	6,826,950	8,009,996	10,187,883	7,060,275	6,289,966	6,424,057	7,640,313
Culture and recreation	8,372,755	9,225,421	8,584,084	9,582,477	9,325,540	10,030,055	7,599,703	7,724,481	8,341,105	7,178,029
Highways and streets	5,894,807	8,312,245	5,536,908	7,042,108	7,733,150	15,648,877	5,676,050	8,003,110	8,951,097	10,700,196
Debt service:										
Principal retirement	1,650,000	2,265,000	2,380,000	2,265,000	2,708,000	2,979,000	3,679,000	4,614,000	4,880,000	6,505,449
Interest and other charges	1,584,752	1,843,607	1,718,604	1,616,866	1,498,920	1,443,074	1,380,182	2,428,026	2,148,734	2,552,016
Capital outlay	127,245	691,627	2,006,000	8,756,365	2,165,989	5,788,006	18,304,161	19,348,708	17,053,841	25,054,173
Total expenditures	38,110,976	43,610,081	45,156,409	54,107,289	52,523,698	68,918,699	66,304,475	72,726,564	74,103,302	89,047,123
Excess of revenues over (under) expenditures	3,636,889	493,485	3,526,540	3,304,024	8,928,749	(5,721,127)	(1,952,854)	(8,856,935)	(2,987,853)	(11,661,140)
<b>OTHER FINANCING SOURCES (USES):</b>										
Refunding bonds issued	9,965,751	-	-	-	4,475,343	3,100,000	9,375,000	720,000	-	-
Bonds issued	-	-	-	-	-	-	-	25,000,000	-	31,500,000
Loan Proceeds	-	-	-	-	-	-	-	-	3,800,000	-
Payment to bond refunding escrow agent	-	-	-	-	-	-	(9,429,957)	(718,127)	-	-
Lease Proceeds	-	-	898,000	-	-	-	-	-	-	-
Improvement District - Proceeds	-	-	55,352	-	-	-	-	-	-	-
Bond premium	-	-	-	-	-	-	-	-	-	220,086
Sale of capital assets	-	-	-	-	-	-	-	1,059,221	-	37,892
Transfers in	9,502,210	13,089,273	9,876,521	11,582,702	11,241,055	12,994,104	12,708,480	634,411	2,114,398	17,317,133
Transfers out	(10,338,807)	(13,228,564)	(10,313,380)	(11,947,847)	(11,931,179)	(13,607,644)	(13,184,784)	(13,365,892)	(16,582,052)	(19,584,684)
Total other financing sources (uses)	9,129,154	(139,291)	516,493	(365,145)	3,785,219	2,486,460	605,215	26,326,147	4,645,277	29,490,427
Net change in fund balances	\$ 12,766,043	\$ 354,194	\$ 4,043,033	\$ 2,938,879	\$ 12,713,968	\$ (3,234,667)	\$ (1,347,639)	\$ 17,469,212	\$ 1,657,424	\$ 17,829,287

Schedule 5  
City of Flagstaff  
Tax Revenue by Source, Governmental Funds  
Last Ten Fiscal Years  
(modified accrual basis of accounting)  
(dollars in thousands)

Fiscal Year	General Property Tax	Secondary Property Tax	Franchise and Other Taxes	City Sales Tax	Bed, Board and Booze Tax	Transportation Tax	Total
1997	\$ 2,244	\$ 3,403	\$ 1,358	\$ 8,492	\$ 3,280	\$ -	\$ 18,777
1998	2,406	3,356	1,512	8,966	3,336	-	19,576
1999	2,578	3,538	1,561	9,369	3,537	-	20,583
2000	2,759	3,777	1,506	10,510	3,645	-	22,197
2001	2,853	3,896	1,690	10,811	3,748	5,343	28,341
2002	3,070	4,198	1,791	11,783	3,817	6,327	30,986
2003	3,427	4,415	1,783	11,469	3,827	6,603	31,524
2004	3,425	4,628	2,262	12,055	4,063	7,303	33,736
2005	3,619	4,856	1,943	13,148	4,331	7,632	35,529
2006	4,209	4,881	2,083	14,707	4,623	8,602	39,105
Change 1997 - 2006	87.57%	43.43%	53.39%	73.19%	40.95%	100.00%	108.26%

Schedule 6  
City of Flagstaff  
Intergovernmental Revenue by Source, Governmental Funds  
Last Ten Fiscal Years  
(modified accrual basis of accounting)

Fiscal Year	State Sales Tax		State Income Tax	County Auto In-Lieu Tax	Highway User Tax	Local			State HB 2565	Federal Grants	State Grants & Other State	County LEAF IGA	County Library District Funding		Other	Total				
						Transportation Assistance														
1997	\$	3,845,330	\$	4,170,641	\$	1,504,060	\$	366,453	\$	-	\$	694,916	\$	-	\$	890,097	\$	-	\$	17,704,496
1998		4,061,346		4,725,837		1,533,501		394,318		-		1,448,951		-		955,342		35,000		19,079,704
1999		4,353,556		5,489,912		1,847,142		7,207,158		-		1,763,054		-		1,101,729		218,384		22,621,143
2000		4,785,424		6,062,290		1,902,188		7,427,210		312,249		1,474,751		-		370,391		3,007,336		26,778,117
2001		4,919,575		6,432,879		1,913,662		7,969,703		142,793		1,731,823		-		317,059		580,241		26,203,650
2002		4,076,034		5,526,159		1,803,900		7,771,416		47,598		2,348,793		-		437,543		274,091		24,008,885
2003		4,136,724		5,557,918		2,378,466		7,408,116		-		1,743,613		-		823,701		850,000		24,820,870
2004		4,449,982		4,777,145		2,427,367		6,975,351		-		1,160,966		468,069		454,212		148,992		23,097,385
2005		4,900,117		4,918,476		2,461,425		7,171,383		-		1,772,181		628,198		2,868,033		39,640		27,109,796
2006		5,652,335		5,655,641		2,655,653		7,540,081		-		2,386,011		420,426		1,398,796		-		28,054,208

Schedule 7  
City of Flagstaff  
Full Cash Value of Taxable Property  
Last Ten Fiscal Years  
*(modified accrual basis of accounting)*

Fiscal Year		Centrally Valued Property	Vacant,				Less: Tax-exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
			Commercial Property	Agricultural, and Government Property	Residential Property				
1997	\$	22,683,523	\$ 154,803,738	\$ 45,676,982	\$ 145,436,287	\$	27,336,262	\$ 341,264,268	\$ 1.8283
1998		21,839,314	162,168,726	44,354,467	161,906,739		27,643,689	362,625,557	1.7127
1999		22,050,677	173,940,245	48,929,326	170,882,075		30,236,121	385,566,202	1.7127
2000		21,765,191	190,494,910	49,352,556	180,667,749		34,550,373	407,730,033	1.7127
2001	(1)	31,232,035	192,395,566	51,001,338	189,936,966		35,535,505	429,030,400	1.7127
2002		33,068,867	197,065,506	60,199,456	201,111,291		42,767,442	448,677,678	1.7127
2003		35,621,681	194,944,521	62,099,966	215,320,769		43,729,051	464,257,886	1.7127
2004		29,405,068	211,870,593	65,128,715	242,190,760		46,939,696	501,655,440	1.7127
2005		27,328,709	221,179,062	82,683,618	276,187,028		50,697,830	556,680,587	1.7127
2006		27,532,435	237,795,313	100,985,606	315,182,546		57,296,001	624,199,899	1.6627

Source: State of Arizona Department of Revenue, State and County Abstract of the Assessment Roll

Note: A portion of city property is reassessed every year. Property is assessed at actual value, therefore, the assessed values are equal to actual value. Tax rates are per \$100 of assessed value.

(1) The Legal Classes changed in 2001 from prior years

Schedule 8  
City of Flagstaff  
Direct and Overlapping Property Tax Rates,  
Last Ten Fiscal Years  
(rate per \$100 of assessed value)

Fiscal Year	City	School District	Community College	County	Total
1997	\$ 1.8283	\$ 6.5237	\$ 0.3784	\$ 1.1386	\$ 9.8690
1998	1.7127	6.6634	0.3869	1.1168	9.8798
1999	1.7127	6.5477	0.3952	1.1094	9.7650
2000	1.7127	6.5585	0.5947	1.1444	10.0103
2001	1.7127	6.6885	0.5724	1.1336	10.1072
2002	1.7127	6.6741	0.5717	1.0951	10.0536
2003	1.7127	6.7590	0.5809	1.1941	10.2467
2004	1.7127	6.3679	0.5775	1.2369	9.8950
2005	1.7127	5.7236	0.5660	1.2212	9.2235
2006	1.6627	6.0786	0.5525	1.2010	9.4948

Note: Tax rates are per \$100 assessed valuation.

Schedule 9  
City of Flagstaff  
Principal Property Tax Payers  
Current Year and Nine Years Ago

2006				1997			
Taxpayer	Total Assessed Value	Rank	As a Percentage of the City Total Secondary Assessed Valuation	Total Assessed Value	Rank	As a Percentage of the City Total Secondary Assessed Valuation	
Arizona Public Service Company	\$ 12,962,238	1	2.33%	13,153,223	2	4.29%	
W L Gore & Associates Inc.	11,048,603	2	1.98%	6,863,664	3	2.24%	
Qwest Corporation	8,174,915	3	1.47%				
Nestle Purina Petcare Company	4,396,489	4	0.79%	3,503,358	6	1.14%	
Walgreen Arizona Drug Co.	4,259,944	5	0.77%	2,655,093	8	0.87%	
Flagstaff Mall Associated Ltd. Partnership	3,938,375	6	0.71%	2,528,340	9	0.82%	
Little America Refining Co.	3,729,503	7	0.67%	5,284,207	4	1.72%	
Cone Company George & Thomas DBA	3,470,890	8	0.62%				
Flagstaff Medical Center Inc	3,196,125	9	0.57%				
UniSource Energy Corporation	2,831,882	10	0.51%				
Woodlands Plaza Hotel LTD Partnership				2,001,095	10	0.65%	
US West Communications				13,322,061	1	4.34%	
Northern Arizona Gas Division				4,024,114	5	1.31%	
Coconino County RSA Ltd Partnership				2,657,380	7	0.87%	
Total Principal Taxpayers	\$ 58,008,964		10.42%	\$ 55,992,535		18.25%	

Source: Arizona Department of Revenue, Central Information Services

Schedule 10  
City of Flagstaff  
Property Tax Levies and Collections  
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
1997	\$ 5,638,222	\$ 5,566,676	98.7%	\$ 79,945	\$ 5,646,621	100.1%
1998	5,754,253	5,651,170	98.2%	110,323	5,761,493	100.1%
1999	6,138,071	6,036,950	98.4%	78,594	6,115,544	99.6%
2000	6,526,010	6,443,879	98.7%	92,342	6,536,221	100.2%
2001	6,936,955	6,658,250	96.0%	90,944	6,749,194	97.3%
2002	7,271,109	7,194,162	98.9%	74,106	7,268,268	100.0%
2003	7,613,349	7,625,852	100.2%	92,457	7,718,309	101.0%
2004	7,897,298	7,791,735	98.7%	261,445	8,053,180	102.0%
2005	8,494,694	8,330,157	98.1%	145,051	8,475,208	100.0%
2006	9,075,322	8,958,733	98.7%	131,194	9,089,927	100.0%

Schedule 11  
City of Flagstaff  
Direct and Overlapping Sales Tax Rates,  
Last Ten Fiscal Years

Fiscal Year	City			State of Arizona	Coconino County	Total
	General Sales Tax	Bed, Board & Beverage	Transportation			
1997	1.0000%	2.0000%	0.0000%	5.0000%	0.5000%	8.5000%
1998	1.0000%	2.0000%	0.0000%	5.0000%	0.5000%	8.5000%
1999	1.0000%	2.0000%	0.0000%	5.0000%	0.8000%	8.8000%
2000	1.0000%	2.0000%	0.0000%	5.0000%	0.8000%	8.8000%
2001	1.0000%	2.0000%	0.5745%	5.6000%	0.8000%	9.9745%
2002	1.0000%	2.0000%	0.5745%	5.6000%	0.8000%	9.9745%
2003	1.0000%	2.0000%	0.5745%	5.6000%	0.9250%	10.0995%
2004	1.0000%	2.0000%	0.6010%	5.6000%	0.9250%	10.1260%
2005	1.0000%	2.0000%	0.6010%	5.6000%	0.9250%	10.1260%
2006	1.0000%	2.0000%	0.6010%	5.6000%	0.9250%	10.1260%

Schedule 12  
City of Flagstaff  
Ratios of Outstanding Debt by Type,  
Last Five Fiscal Years  
*(dollars in thousands, except per capita)*

Fiscal Year	Governmental Activities				Business-Type Activities					Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Special Assessment Bonds	Revenue Bonds	Municipal Facility Corporation Bonds	Capital Leases	General Obligation Bonds	Revenue Bonds	Term Loan Payable	Capital Leases			
2002	\$ 8,935	\$ 1,188	\$ 16,520	\$ 4,700	\$ -	\$ 25,050	\$ -	\$ 4,048	\$ -	\$ 60,441	2.1%	\$ 1,021.65
2003	7,485	944	14,790	4,445	-	22,958	6,537	3,716	-	60,875	2.0%	997.46
2004	5,795	685	13,380	28,170	-	21,253	6,290	3,380	-	78,953	2.4%	1,288.61
2005	4,285	415	11,555	26,895	3,800	18,880	6,035	3,031	2,732	77,628	2.4%	1,244.62
2006	32,875	340	9,665	25,610	3,455	16,294	5,770	2,671	2,652	99,332	3.1%	1,592.60

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.  
New bond issues include \$31.5 million in general obligation bonds.  
See Schedule 17 for personal income and population data.

The City implemented GASB 34 for the fiscal year ended June 30, 2003.  
Prior Statements have not been restated to comply with the new requirements.  
These amounts are presented on the accrual basis of accounting.

Schedule 13

City of Flagstaff

Ratios of General Bonded Debt Outstanding

Last Five Fiscal Years

(dollars in thousands, except per capita)

Fiscal Year	General Bonded Debt Outstanding				Total	Percentage of Actual Taxable Value of Property	a	b
	Governmental Activities		Business-Type Activities					
	General Obligation Bonds		General Obligation Bonds					
2002		8,935		25,050	33,985	7.6%		574.46
2003		7,485		22,958	30,443	6.6%		498.82
2004		5,795		21,253	27,048	5.4%		441.46
2005		4,285		18,880	23,165	4.2%		371.41
2006		32,875		16,419	49,294	7.9%		790.34

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

a: See Schedule 7 for property value data

b: Population data can be found in Schedule 17

The City implemented GASB 34 for the fiscal year ended June 30, 2003.

Prior Statements have not been restated to comply with the new requirements.

These amounts are presented on the accrual basis of accounting.

Schedule 14  
City of Flagstaff  
Direct and Overlapping Governmental Activities Debt  
Last Ten Fiscal Years  
*(dollars in thousands, except per capita)*

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable*</u>	<u>Estimated Share of Overlapping Debt</u>
<b>Debt repaid with property taxes</b>			
Flagstaff Unified School District	\$ 24,248	65.00%	\$ 15,761
Coconino County General Obligation Debt	18,180	47.00%	8,545
Subtotal, overlapping debt			24,306
<b>City direct debt</b>			50
<b>Total direct and overlapping debt</b>		\$	24356.0

**Sources:** Assessed value data used to estimate applicable percentages provided by the Coconino Finance Department. Debt outstanding data provided by each governmental unit.

**Note:** Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of Flagstaff. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

\* For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the City's boundaries and dividing it by each unit's total taxable assessed value.

**20% Debt Limit**

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Debt limit equal to 20% of assessed valuation	\$ 68,149	\$ 72,655	\$ 72,525	\$ 77,113	\$ 81,719	\$ 85,806	\$ 92,852	\$ 100,331	\$ 111,336	\$ 124,840
Total net debt applicable to 20% limit	39,954	36,370	32,519	28,779	27,043	28,425	26,283	24,493	21,644	35,227
Legal debt margin (Available borrowing capacity)	\$ 28,195	\$ 36,285	\$ 40,006	\$ 48,334	\$ 54,676	\$ 57,381	\$ 66,569	\$ 75,838	\$ 89,692	\$ 89,613
Total net debt applicable to the 20% limit as a percentage of debt limit	141.71%	100.23%	81.29%	59.54%	49.46%	49.54%	39.48%	32.30%	24.13%	39.31%

**6% Debt Limit**

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Debt limit equal to 6% of assessed valuation	\$ 20,445	\$ 21,796	\$ 21,758	\$ 23,134	\$ 24,516	\$ 25,742	\$ 27,855	\$ 30,099	\$ 33,401	\$ 37,452
Total net debt applicable to 6% limit	9,485	8,930	8,350	7,720	6,690	5,560	4,160	2,555	1,225	14,202
Legal debt margin (Available borrowing capacity)	\$ 10,960	\$ 12,866	\$ 13,408	\$ 15,414	\$ 17,826	\$ 20,182	\$ 23,695	\$ 27,544	\$ 32,176	\$ 23,250
Total net debt applicable to the 6% limit as a percentage of debt limit	86.54%	69.41%	62.28%	50.08%	37.53%	27.55%	17.56%	9.28%	3.81%	61.08%

**Legal Debt Margin Calculation for Fiscal Year 2006**

Net Secondary Assessed Value as of June 30, 2006 \$ 624,199,899

**20% Limitation**

Debt Limit of 20% of Assessed Value

\$ 124,839,980

Debt applicable to limit:

General Obligation Bonds

35,226,764

Legal 20% debt margin (Available borrowing capacity)

\$ 89,613,216

**6% Limitation**

Debt Limit of 6% of Assessed Value

\$ 37,451,994

Debt applicable to limit:

General Obligation Bonds

14,202,300

Legal 6% debt margin (Available borrowing capacity)

\$ 23,249,694

Schedule 16  
City of Flagstaff  
Pledged Revenue Coverage  
Last Ten Fiscal Years  
*(dollars in thousands)*

Water and Sewer Revenue Bonds									
Fiscal Year	Gross Revenues	Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Total	Coverage	
				Principal	Interest				
1997	\$ 16,515,478	\$ 7,973,540	\$ 8,541,938	\$ -	\$ -	\$ -	\$ -	-	
1998	16,767,650	7,916,657	8,850,993	-	-	-	-	-	
1999	16,773,884	7,700,535	9,073,349	-	-	-	-	-	
2000	17,606,349	8,311,186	9,295,163	-	-	-	-	-	
2001	18,337,310	9,757,448	8,579,862	-	-	-	-	-	
2002	17,637,708	9,587,743	8,049,965	-	-	-	-	-	
2003	16,769,463	9,865,571	6,903,892	238,431	17,741		256,172	26.95	
2004	17,227,848	10,645,073	6,582,775	246,890	231,034		477,924	13.77	
2005	16,851,956	10,693,901	6,158,055	255,648	223,153		478,801	12.86	
2006	17,755,038	11,791,895	5,963,143	264,717	214,084		478,801	12.45	

Schedule 16 (continued)  
City of Flagstaff  
Pledged Revenue Coverage  
Last Ten Fiscal Years  
*(dollars in thousands)*

Highway User Revenue Bonds						
Fiscal Year	Highway User Tax Revenue	Debt Service Requirements			Total	Coverage
		Principal	Interest			
1997	\$ 5,852,957	\$ 1,165,000	\$ 1,214,965	\$	2,379,965	2.46
1998	5,371,446	1,230,000	1,147,592		2,377,592	2.26
1999	7,207,158	1,290,000	1,082,148		2,372,148	3.04
2000	7,427,210	1,375,000	1,016,507		2,391,507	3.11
2001	7,969,703	1,420,000	960,133		2,380,133	3.35
2002	7,771,416	1,490,000	900,492		2,390,492	3.25
2003	7,408,116	1,730,000	668,260		2,398,260	3.09
2004	6,975,351	1,410,000	607,160		2,017,160	3.46
2005	7,171,383	1,825,000	571,910		2,396,910	2.99
2006	7,540,081	1,890,000	526,285		2,416,285	3.12

Schedule 17  
City of Flagstaff  
Demographic and Economic Statistics  
Last Ten Fiscal Years

Year	Population	Personal Income (thousands of dollars)	Per Capita Personal Income	Median Age	Education		School Enrollment	Unemployment Rate
					Level – Percent High School Grad or Higher	Level – Percent Bachelor's Degree or Higher		
1997	55,885	\$ 2,161,021	\$ 18,883	NA	NA	NA	12,679	6.50%
1998	58,145	2,319,364	20,191	NA	NA	NA	13,249	6.60%
1999	59,945	2,448,155	21,232	NA	NA	NA	12,880	6.60%
2000	52,894	2,661,712	22,815	26.8	89.8%	39.4%	12,682	5.20%
2001	57,700	2,787,863	23,716	26.8	89.8%	39.4%	13,969	4.80%
2002	59,160	2,908,992	24,259	26.8	89.8%	39.4%	13,566	5.10%
2003	61,030	3,011,724	24,871	26.8	89.8%	39.4%	12,905	5.80%
2004	61,270	3,234,303	26,362	26.8	89.8%	39.4%	13,176	5.20%
2005	62,371	3,234,303	26,362	26.8	89.8%	39.4%	13,389	5.10%
2006	62,371	3,234,303	26,362	26.8	89.8%	39.4%	13,389	5.00%

**Sources:**

Population – Arizona Department of Economic Security, except for 2000 which is the official census number  
Personal Income – 1997 – 2004 Arizona Department of Economic Security, Workforce Development Statistics  
Personal Income – 2005 – 2006 Arizona Department of Economic Security, Workforce Development Statistics, estimate form 2004  
Per Capita Income – 1997 – 2004 Arizona Department of Economic Security, Workforce Development Statistics  
Per Capita Income – 2005 – 2006 Arizona Department of Economic Security, Workforce Development Statistics, estimate form 2004  
Median age – 2000 US Census  
Education level – 2000 US Census  
School enrollment – Arizona Department of Education and National Center for Education Statistics  
Unemployment – Arizona Department of Economic Security

Schedule 18

City of Flagstaff

Principal Employers

Current Year

	2006		
	Employees	Rank	Percentage of Total City Employment
Northern Arizona University	3,393	1	11.01%
Flagstaff Medical Center	1,999	2	6.49%
Flagstaff Unified School District	1,700	3	5.52%
W.L. Gore & Associates	1,300	4	4.22%
Coconino County	1,075	5	3.49%
City of Flagstaff	948	6	3.08%
Walgreens Distribution Center	400	7	1.30%
Grand Canyon Railway	400	8	1.30%
Coconino Community College	400	9	1.30%
SCA Tissue	279	10	0.91%

Total	11894	38.59%
2000 U.S. Census Labor Force	30,822	

**Source:**

Arizona Department of Economic Security, Workforce Arizona Statistics

June 2006 Estimated number of workers =

Historical information not available. Trended comparisons will be presented in future years.

Schedule 19  
City of Flagstaff  
Full-time Equivalent City Government by Function /Program  
Last Ten Fiscal Years

Function/Program	Full-time Equivalent Employees as of June 30									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Government										
Management services	60.00	62.25	65.00	69.25	72.00	77.00	74.00	73.00	74.25	75.75
Capital management	-	-	-	-	-	19.00	18.50	15.50	14.50	13.50
City Court	18.25	18.25	20.25	20.25	21.25	24.25	25.25	26.50	26.50	26.50
Public Safety										
Police	122.25	130.50	132.75	138.25	147.50	148.25	148.25	150.00	151.00	160.00
Fire	80.00	81.25	84.00	84.50	84.50	97.25	96.75	96.75	96.75	97.75
Public Works	28.75	30.25	30.25	25.75	26.75	26.75	27.00	27.00	25.00	26.00
Economic and physical development										
Building	53.50	53.50	55.00	57.40	57.00	48.00	49.00	43.75	43.00	49.25
Planning	13.00	16.25	17.00	17.10	17.00	17.25	17.25	17.25	17.25	15.25
Tourism	5.00	6.00	6.00	6.00	6.00	6.00	6.00	11.75	13.75	13.75
Culture and recreation										
Library	34.00	35.25	35.75	37.00	37.50	38.75	39.50	39.50	40.00	40.00
Parks, recreation, and beautification	60.00	65.25	68.00	73.25	74.00	79.25	74.50	67.75	63.95	67.53
Highways and Streets	33.50	36.00	35.25	35.25	35.25	35.25	36.25	36.25	36.25	36.25
Water and wastewater	69.00	71.00	72.00	72.00	71.75	74.75	74.50	73.00	74.50	76.50
Environmental services	25.50	27.00	27.00	39.75	40.00	45.00	45.00	45.75	52.25	54.00
Airport	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50
Stormwater	-	-	-	-	-	-	-	5.75	5.00	6.50
Total	612.25	642.25	657.75	685.25	700.00	746.25	741.25	739.00	743.45	768.03

Schedule 20  
City of Flagstaff  
Operating Indicators by Function/Program  
Last Five Fiscal Years

Function/Program	2002	2003	2004	2005	2006
<b>Court</b>					
Criminal Filings	11,005	11,068	10,236	9,227	9,705
Traffic filings	10,431	10,613	10,388	11,253	10,575
Domestic Violence/Other filings	575	622	682	673	616
<b>Fire</b>					
Emergency responses	3,386	3,658	5,616	6,722	7,684
Fires response	352	216	265	228	351
Other calls	2,094	1,205	2,023	1,905	1,323
Inspections assigned	NA	NA	2,212	2,006	1,966
Plan Reviews	NA	NA	1,340	1,348	1,280
<b>Fuel Management</b>					
Plan Assessment (Acres)	NA	1,516	2,020	1,065	585
Site Marking (Acres)	NA	759	408	311	662
Site Thinning (Acres)	NA	882	521	792	694
Prescription Burn (Acres)	NA	917	709	834	557
<b>Police</b>					
Felony reports	NA	NA	NA	4,979	5,337
Misdemeanor reports	NA	NA	NA	12,378	13,381
Domestic violence incidents	NA	NA	NA	1,464	1,598
Non-crime reports	NA	NA	NA	8,818	9,136
Accident reports	NA	NA	NA	3,616	3,313
Calls dispatched to Police/Sheriff	NA	NA	NA	73,559	77,239
Calls dispatched to Fire	NA	NA	NA	11,266	11,741
Calls dispatched to Medical	NA	NA	NA	9,435	9,175
<b>Streets</b>					
Potholes repaired	NA	NA	NA	2,988	1,962
<b>Airport</b>					
Fuel Flowage (Gallons Sold)	713,193	698,227	673,786	653,743	705,638
Enplanements	36,057	34,984	38,387	42,483	39,646
<b>Refuse collection</b>					
Refuse collected (Landfill tonnage)	110684	128153	109608	140233	154321
Recyclables collected (total tons)	7886	9126	9213	9816	9866
<b>Community Development</b>					
Residential Permit Valuation (1)	59,963,201	78,719,935	67,214,811	87,180,707	
Commercial Permit Valuation (1)	29,051,528	12,843,323	18,123,934	12,324,654	
<b>Library</b>					
Visits	NA	NA	564,065	582,726	625,103
Circulation	NA	NA	781,893	776,180	758,468
<b>Tourism</b>					
RevPar	48.33	45.36	47.95	52.90	59.48

**Sources:** Various city departments

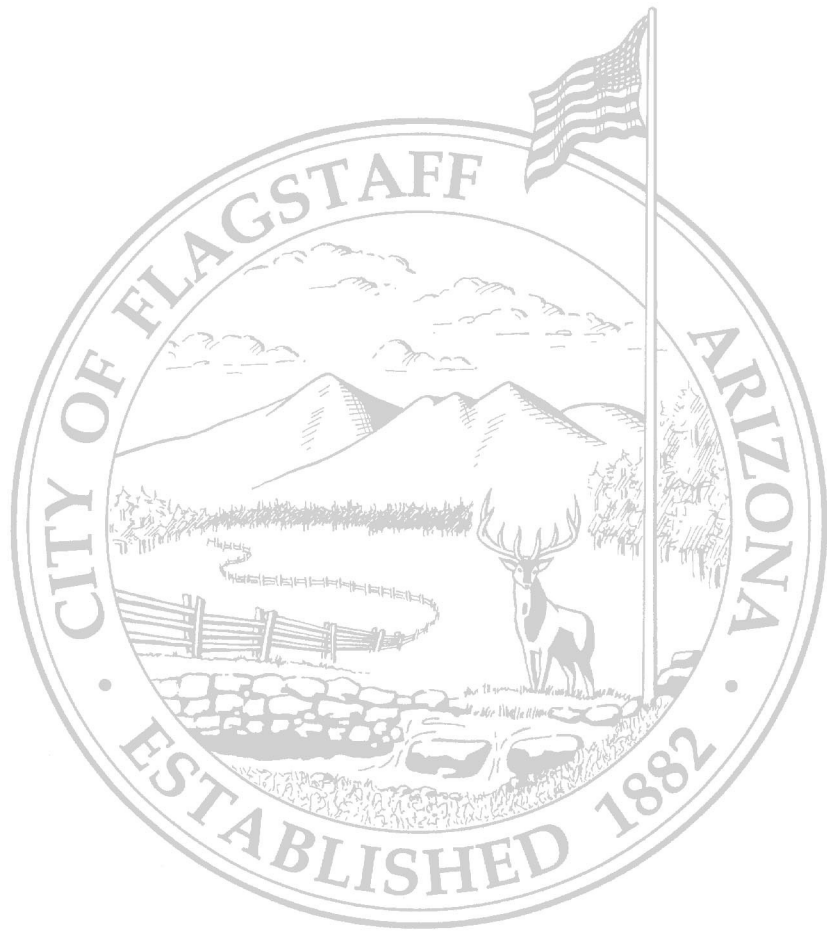
(1) This information is gathered and reported on a calendar year basis versus a fiscal year basis for all other measurements

Schedule 21  
City of Flagstaff  
Capital Asset Statistics by Function /Program  
Last Ten Fiscal Years

Function /Program	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Public Safety										
Police - Number of calls for Service	55,131	55,853	54,852	53,620	53,445	58,754	55,801	55,625	55,709	55,464
Police patrol units	27	28	28	31	32	32	32	26	26	26
Number of fire hydrants	Unavail	Unavail	Unavail	Unavail	Unavail	2,382	2,435	2,478	2,478	2,598
Numer of fire stations	5	5	6	6	6	6	6	6	6	6
Economic and physical development										
Number of residential permits processed										
Number of commercial permits processed										
Culture and recreation										
Number of developed parks	29	31	31	31	26	27	27	28	27	27
Number of undeveloped parks	Unavail	Unavail	Unavail	Unavail	3	3	3	4	4	4
Park acreage	602	602	602	602	578	586	586	704	702	702
Flagstaff Urban Trail System - Miles	18	19	19	19	21	22	22	28	32	34
Total number of recreation facilities	60	60	60	83	88	90	92	124	122	122
Highways and Streets										
Miles of streets, alleys, and sidewalks	308	321	324	324	330	350	350	365	365	386
Number of street lights	2,460	2,708	2,740	2,768	2,777	2,853	2,898	2,921	2,921	3,037
Water and wastewater										
Miles of sewer	213	227	231	237	243	250	271	275	275	293
Number of manholes	Unavail	Unavail	Unavail	Unavail	Unavail	5,857	5,979	6,097	6,097	6,496
Total active water accounts	14,196	14,690	14,961	15,230	15,600	15,802	16,356	16,948	18,039	17,872
Average gallon water usage per household per month	7,600	6,911	6,576	6,546	6,848	6,897	6,727	6,070	6,096	5,488
Environmental services										
Average number of residential collection accounts										
Check with Rebecca										
Airport										
Fixed base operators	1	1	1	1	1	1	1	1	1	1
Locally based aircraft	112	110	110	130	130	130	130	130	130	130
Tiedowns	49	49	49	49	49	49	49	49	29	18
Enclosed hangars	33	33	33	47	47	42	42	42	42	61
Open hangars	38	38	38	38	38	38	38	38	38	48

Schedule 22  
City of Flagstaff  
Insurance Summary  
In Effect June 1, 2006 to May 31, 2007

Coverage	Limit of Liability	Coverage	Limit of Liability
<b>Liability Insurance:</b> General Liability* (Includes 2 Skateboard Parks) ERP Healthcare (EMT) Liability Law Enforcement Liability* Auto Liability* Public Entity Management Errors and Omissions* (Claims Made Retro Date 6-1-95) Employment Practices Liability* (Claims Made Retro Date 6-1-95) Employee Benefits Liability* (Claims Made) * Liability Claims are Subject to a \$50,000 Self Insurance Retention	\$ 1,000,000 / per occurrence \$ 2,000,000 / aggregate \$ 2,000,000 / each event \$ 2,000,000 / aggregate \$ 1,000,000 / each wrongful act \$ 1,000,000 / aggregate \$ 1,000,000 / each accident \$ 1,000,000 / each wrongful act \$ 1,000,000 / aggregate \$ 5,000,000 / each wrongful act \$ 5,000,000 / aggregate \$ 1,000,000 each wrongful act \$ 3,000,000 aggregate	<b>Property Insurance:</b> Blanket Buildings and Personal Property including traffic signals Flood Zones B and C Earthquakes Business Income/Extra Expense Auto Physical Damage Flood Zone A Properties Municipal Court City Hall, Library Contractors Equipment (actual cash value) Lab Equipment Employee Hand Tools Computer Equipment and Peripherals Computer Data and Media Laptops and Portables - Replacement Cost Coverage Scheduled Fine Arts Fine Arts Exhibition Floater City Hall, Visitor Center, Airport Terminal Boiler and Machinery Crime: Blanket Public Employees and Treasurer Dishonesty Bond Including Faithful Performance of Duty Computer Fraud Theft, Disappearance, & Destruction (Inside and Outside) Aviation: Products/Completed Operations Liability, Contractual, Construction & Demolition Hangar Keepers Liability	\$ 109,353,579 / \$25,000 deductible \$ 10,000,000 / \$50,000 deductible \$ 15,000,000 / \$25,000 deductible \$ 7,000,000 / 24 hours \$ 17,603,939 / \$1000/comprehensive / \$5000/collision deductible \$ 220,000 / building \$ 116,900 / contents \$ 500,000 / each building \$ 500,000 / contents each (\$5,000 deductible) \$ 3,944,410 / \$5,000 deductible \$ 11,300 / \$1,000 deductible \$ 35,000 / \$1,000 deductible \$ 1,190,000 / \$1,000 deductible \$ 500,000 / \$1,000 deductible \$ 248,500 / \$1,000 deductible \$ 24,000 / \$1,000 deductible \$ 25,000 / each location \$ 25,000,000 / \$5,000 deductible \$ 1,000,000 / \$5,000 deductible \$ 250,000 / \$5,000 deductible \$ 5,000 / \$500 deductible \$ 30,000,000 / each occurrence \$ 30,000,000 / aggregate \$ 30,000,000 / each aircraft \$ 30,000,000 / each occurrence
<b>Umbrella/Excess #1 - GL, Auto, Law Enforcement, Employment Liability</b> Public Entity Management, Employee Benefits (Excludes Employment Practices, Failure to supply Services, Mold, Terrorism, Asbestos, Lead, Condemnation, Sexual Abuse) Excess Liability #2 Following Form Over Excess Liability # 1 (Excluding discrimination, asbestos, terrorism, employment related practices, nuclear)	\$ 20,000,000 / each event/ Wrongful Act / aggregate \$ 5,000,000 / each occurrence/ Wrongful Act / aggregate		





**City of Flagstaff**  
**211 West Aspen Avenue**  
**Flagstaff, Arizona 86001**

**[www.flagstaff.az.gov](http://www.flagstaff.az.gov)**